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World economy

Apparent calm and actual frenzy

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Germany

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The pallets that save trees

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World Business Newspaper http://www.FT.com TUESDAY FEBRUARY 24 1998

WORLD NEWS

Moscow and Tokyo draw closer with $1.5bn deal

The Japanese government has agreed its first loan to Russia not tied to purchases from Japanese companies. The $1.5bn loan is a further sign that the countries are developing closer links despite a lingering territorial dispute. Page 18

Yeltsin warns ministers
Russian president Boris Yeltsin continued a cat-and-mouse game with his cabinet, hinting that ministers might be sacked later this week when the government delivers a long-awaited report on its performance in 1997. Page 2

S Africa bids for World Cup
South Africa joined England and Germany on the list of countries competing to host the 2006 World Cup after formally unveiling its bid at the African Nations' cup tournament in Burkina Faso.

Chile shores up currency
Chile's central bank stepped in to shore up the country's currency following the publication of figures showing a sharp widening of its trade deficit at the beginning of the year. Page 18

Australia aims to aid Jakarta
Australia launched a campaign to help defuse tension in Indonesia, urging greater leniency in conditions set by the IMF and sending senior aid officials to Jakarta to discuss emergency assistance. Page 4

Bank funds plan to go ahead
Japan's plans to inject public funds totalling Y13,000bn ($101.9bn) into its troubled banks should not be derailed by the corruption scandals in the sector, an influential government committee said. Page 4

Car crash fraud scandal
A group of 45 Los Angeles lawyers and medical professionals is accused of defrauding the largest motor insurer in the US through fake car accidents. Page 18

EU presses Taiwan
Taiwan faces European Union pressure for reform of its rules on taxation of spirits and compact cars as talks begin over its admission to the World Trade Organisation. Page 8

Subsidies to stay
Landowners seem likely to keep the bulk of their European Union subsidies in spite of calls for a limit to hand-outs. Page 2

Korea loan deal talks resume
A campaign to win acceptance for South Korea's debt restructuring plan began as documents detailing the renegotiated terms were dispatched to banks around the world. Page 4

Suharto 'drops currency plan'
Senior officials and diplomats in Indonesia believe President Suharto has quietly shelved plans for a currency board – but will not admit it shortly before he is due to re-elected for a seventh term. Page 4

Ukraine to keep warship
Cash-strapped Ukraine will complete a battle cruiser originally intended for Soviet and then Russian naval forces for its own navy, an official said.

Albanian troops retake town
The Albanian government said its forces had regained control of the northern town of Shkoder from an armed gang.

US farm exports set to slip
US farm exports will decline by $2.1bn this year as the Asian financial crisis curbs demand for imported food. Page 8

Show de Cologne
More than a million revellers packed Cologne in Germany for the traditional Rose Monday parade. Page 3

BUSINESS NEWS

Allstate sues professionals over alleged car fraud

Allstate, the largest motor insurer in the US, has launched a $107m lawsuit against a group of 45 Los Angeles lawyers and medical professionals who are accused of defrauding the insurer through a series of fake car accidents. The insurer vowed to stamp out fraud with "every legal means at our disposal". Page 18

Saipem, the oilfield services company controlled by Italy's Eni oil and gas group, is set to launch one of Europe's largest non-government share offerings this year in a deal expected to raise L1,000bn ($556m). Page 24

British Airways has told Boeing and Airbus Industrie, the aircraft manufacturers, to come up with innovative ways of funding aircraft purchases to allow it to reduce substantially the capital assets it owns. Page 8

France's left-wing government is to shed up to 47 per cent of the state shareholding in Air France while pledging to remain the majority investor. Page 19; Observer, Page 17; Lex, Page 18

Standard Chartered and Barclays Bank of the UK denied they were in discussions, moving to quell speculation that they were in talks on a deal to create a 236bn ($80bn) international banking group. Page 25

Investcorp, the Bahrain-based investment group, unveiled plans to create the UK's largest independent commercial printing group and said it might make other acquisitions in the sector in Europe. Page 19

Sydkraft, Sweden's largest independent power generator, called on the European Commission to block plans to decommission the first of the country's 12 nuclear reactors. Page 2

Baan, Netherlands-based business software group, is to acquire Coda Group, the UK-based financial software group, in a £52.9m ($87m) deal. Page 19

Pharmacia & Upjohn, the US-Swedish drugs group, is to invest SKr1.1bn ($137m) in new research and development facilities in Stockholm. Page 24

Network Associates, the US security software house, is to acquire software house Trusted Information Systems for $300m. Page 20

HSBC Holdings, the international banking conglomerate whose interests range from Midland Bank in the UK to HongkongBank in China, increased bad debt provisions last year by 55 per cent to £617m ($1bn). Page 19; Observer, Page 17; Lex, Page 18; Asia crisis, Page 22

SK Telecom, South Korea's largest mobile phone service provider, reported a 42 per cent fall in 1997 net earnings as it confronts a threatened shareholder revolt by US institutional investors next month. Page 22

Comalco, Australian aluminium subsidiary of Rio Tinto, the Anglo-Australian mining group, reported a strong turnround in the year to December. Net profit was A$220m (US$148m), compared with the previous year's loss of A$16.8m. Page 22

CORRECTION
Mitsubishi Electric has asked us to point out that it will continue to develop and supply products for the PC user. It also intends to use the Apricot brand name. The FT wrongly reported yesterday that the company was quitting the PC market in Europe and Japan. Mitsubishi notebook, Page 21

UN leader says deal acceptable on weapons inspections in Iraq

US cautious as world hails Annan pact with Saddam

By Roula Khalaf in Baghdad, Lionel Barber in Brussels and Chrystia Freeland in Moscow

Governments around the world hailed yesterday's signing of a breakthrough agreement between the United Nations and Iraq on weapons inspections, but there was caution and some scepticism in Washington.

Kofi Annan, the UN secretary-general, said after signing the deal in Baghdad that its terms were acceptable and it ensured compliance with UN security council resolutions, which Washington has threatened to enforce by military means.

He will present the accord to the UN today in New York.

Boris Yeltsin, the Russian president, said the agreement vindicated Moscow's efforts to avert a clash that could have spread to other Middle Eastern countries. The deal was welcomed by European Union foreign ministers meeting in Brussels.

But in Washington, the administration stressed that it opposed a "phony solution" and was studying the accord closely to see whether it met the US demand for unfettered UN access to Iraqi sites linked to the production of deadly weapons.

Senator Trent Lott, the Republican majority leader, said President Bill Clinton was "in a very awkward position" because he might have to choose between an imperfect agreement and defying world opinion.

Madeleine Albright, the US secretary of state, has threatened to "pursue [US] national interests" if Washington is not satisfied by the agreement.

Mr Clinton said he had a long telephone conversation with Tony Blair, the UK prime minister, and was also consulting Mr Yeltsin and President Jacques Chirac of France.

UK diplomats voiced confidence they could gather support for a security council resolution that would "nail down" the UN-Iraqi agreement and authorise the use of force if Baghdad raised fresh problems for the UN arms inspectors. Mr Blair said a resolution was needed to make sure "we are not going to get mucked about in two or three months' time" by fresh obstruction from Baghdad.

Tariq Aziz, Iraq's deputy prime minister, said that future inspections would make clear Baghdad had completed its disarmament programme and was entitled to relief from UN sanctions.

Mr Aziz insisted that it was the secretary-general's goodwill mission, rather than the huge build-up of US forces in the Gulf, that resolved the crisis.

Robin Cook, the UK foreign secretary, said in Brussels that Baghdad had backed off from its effort to restrict the UN inspectors and bar them from certain sites. But he said "hard questions" remained and the effort to stop Iraq developing deadly weapons was still a challenge.

In Washington, senior legislators deplored the administration's apparent willingness to let the UN limit its freedom to take military action. "I was worried that this initiative by Annan was going to put the president in a box and that's exactly what's happened," said Senator Lott.

Senator Arlen Specter, another Republican, said the US should press ahead with plans to engineer the removal of Iraqi president Saddam Hussein.

In Moscow, Mr Yeltsin said the issue had been solved and there was no longer danger of a war "which would not end with Iraq [but] involve a much greater territory and significantly more countries".

A German official said the inspection agreement should be put to an early test, while US-led military forces were still in the Gulf.

The Iraq crisis, Page 6
After the Annan deal and Editorial Comment, Page 17

President Bill Clinton talks with chief of staff Erskine Bowles during a meeting yesterday at the National Governors' Association Reuters

Up to 47% of capital on offer in Air France sell-off

By Andrew Jack in Paris

France's leftwing government yesterday announced plans to reduce the state's shareholding in Air France while pledging it would remain the majority investor.

The government said it would dispose of up to 47 per cent of the national carrier's capital. The partial privatisation follows the approval of a stock-market listing for France Telecom, and decisions to push ahead with the full privatisation of GAN, the insurer, and CIC, the regional banking group.

Jean-Claude Gayssot, the transport minister, stressed yesterday he had been in favour of the participation of private investors since July, which would help the airline meet growing international competition and provide the finance necessary for a new phase in its development.

Christian Blanc, the former chairman of Air France, resigned in the autumn after a public battle with the new government, which had refused to agree to his proposals that the majority of the company's shares should be sold.

In a first operation that could be launched over the summer, the state will cut its stake to two-thirds, offering 20 per cent to private investors and allocating up to 12 per cent more to Air France's 3,500 pilots and other top managers who agree to receive some of their salary in the form of shares.

Up to 15 per cent of the shares sold to private investors will be allotted on preferential terms to Air France's 36,000 employees, reflecting a commitment to motivate staff.

In a second operation, Mr Gayssot said further shares in Air France could be offered to other international airline companies as part of a network of cross shareholdings and alliances in the future.

In addition, the government's stake could be diluted still further from next year when BNP, the French bank, has the option to exercise the right to take a 4.5 per cent stake in payment for

Continued on Page 18
Observer, Page 17
Lex, Page 18

UK demand shows strong rise

By Robert Chote in London

Domestic demand in the UK last year was rising at its fastest rate for more than eight years, according to statistics published yesterday.

Demand grew by 1.3 per cent in the fourth quarter, a rate exceeded only once since 1988. Over the previous four quarters, *demand growth topped 4 per cent* for the first time since 1989, increasing fears of an outbreak of inflation.

Eddie George, governor of the Bank of England, said on Sunday: "We have had really quite strong domestic demand, and there is no question that domestic demand needs to moderate if we are not to run into trouble."

The acceleration in demand is being driven by consumer spending growth, which rebounded at the end of the year after the depressive effect of the death and funeral of the Princess of Wales.

Consumer spending rose 1.3 per cent in the fourth quarter, helped by purchases of durable goods, *clothing and footwear.*

Spending growth is being encouraged by rises in employment incomes as average earnings and net job creation increased. In cash terms, incomes from employment rose 6.2 per cent in the year to the fourth quarter, the biggest rise since 1991.

The boom in spending is coinciding, as it often has, with a jump in Britain's trade deficit.

The Office for National Statistics revised its provisional estimate of economic growth in the fourth quarter to 0.4 from 0.5 per cent. *The big rise in domestic* demand produced a much smaller increase in output as the trade gap doubled.

Adjusting for seasonal factors, the deficit in goods and services widened from £1.49bn in the third quarter to £2.97bn ($4.95bn) in the fourth, measured in 1990 prices. Analysts blamed the worsening trade position on Asia's economic crisis and sterling's strength.

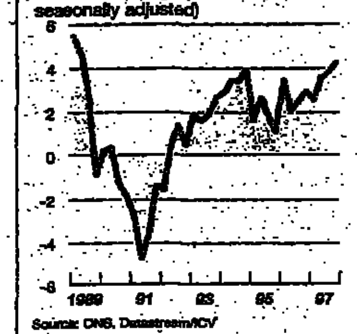
The Bank of England expects the latter to slow the economy through this year but its monetary policy committee will be concerned if higher interest rates are slowing the economy entirely through the exchange rate, rather than by moderating domestic spending.

Government spending rose modestly in the fourth quarter, while investment rebounded after falling in the third.

It was also announced that the UK's current account was £1.3bn in the black in 1997, using the Maastricht treaty definition, although the ONS described the figure as "highly provisional".

Domestic demand

Annual % change (constant prices, seasonally adjusted)



Source: ONS, Datastream/ICV

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8400.24	(-13.70)
NASDAQ Composite	1746.13	(+18.00)
Europe and Far East		
CAC40	3273.46	(+10.98)
DAX	4657.54	(+54.89)
FTSE 100	5702.8	(-48.8)
Nikkei	16,809.49	(-146.75)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.224%	
Long Bond	103½	
Yield	5.874%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(7½%)
UK: 10 yr Gilt	109.1953	(109.414)
France: 10 yr OAT	104.07	(103.91)
Germany: 10 yr Bund	107.83	(107.69)
Japan: 10 yr JGB	109.48	(109.11)
NORTH SEA OIL (Argus)		
Brent Dated	$13.465	(13.91½)

GOLD		
New York: Comex	$294.1	(298.1)
London	$293.45	(297.15)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.64615	
DM	1.79355	
FFr	6.0119	
SFr	1.44915	
Y	128.00	
London:		
£	1.6434	(1.6361)
DM	1.7968	(1.8218)
FFr	6.0330	(6.1085)
SFr	1.4515	(1.468)
Y	127.94	(127.535)
Tokyo close		Y 128.46
Sterling		
DM	2.955	(2.9806)

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Yeltsin gives ministers new warning

By Chrystia Freeland in Moscow

Boris Yeltsin yesterday continued a cat-and-mouse game with his cabinet, hinting that ministers might be sacked later this week when the government delivers a long-awaited report on its performance in 1997.

Over the past few weeks, the president has kept ministers on tenterhooks, alternately warning of an imminent cabinet reshuffle and reassuring his officials they will keep their posts.

Yesterday Mr Yeltsin said he planned to take a very "demanding" attitude towards the government's report, scheduled for Thursday. "I will question specific ministers and then take an immediate decision on their future," Mr Yeltsin said.

For months, the Kremlin's warring clans have been sharpening their knives in anticipation of February 26, believing that the cabinet's report would be an excellent opportunity to push for ministerial sackings. But earlier this month Mr Yeltsin seemed to pledge that his three top ministers – the prime minister, Victor Chernomyrdin, and the two first deputies, Anatoly Chubais and Boris Nemtsov – would keep their jobs.

Yesterday's hints have brought a fresh wave of uncertainty, and ensure that the report will be closely watched for signs of which faction, the reform team or the more conservative group linked with Mr Chernomyrdin, has the upper hand in the government.

The report comes at a troubled time for the economy. High interest rates appear to have protected the rouble in the wake of the Asian crisis but at a high price. The central bank is now forecasting that the economy will either remain stagnant this year, or grow by a meagre 1 per cent.

Yet Mr Yeltsin has continued to demand his government produce economic growth of between 2-4 per cent in 1998. The contradiction between economic reality and the president's hopes could curtail the careers of many of the current ministers.

The government may also find itself taken to task for its failure to secure the passage of the 1998 draft budget. Parliament rejected the budget last week, following a last-minute government effort to introduce sharp cuts in spending. Mr Yeltsin has demanded that the government win swift parliamentary approval. Yesterday he predicted that the parliament would soon be won over.

"I believe that common sense will prevail," Mr Yeltsin said as he laid a wreath at the Tomb of the Unknown Soldier during a rare public appearance on Moscow's streets. "We need to have a realistic budget and to implement it from the first quarter."

Yeltsin greets the nationalist Vladimir Zhirinovsky (right) at yesterday's wreath-laying AP

Turkish Islamist party dissolved

By John Barham in Ankara

Turkey yesterday began formal proceedings to implement a court decision to dissolve the Islamist opposition Welfare party and put its leader on trial for sedition. Welfare was removed from office last June in a "soft coup" led by the army.

Although the court announced its decision last month, the authorities had to wait until the formal publication of the decision last Sunday before acting to dissolve the party.

Necmettin Erbakan, 71, the party's former leader, loses his seat in parliament and is banned from politics for five years together with five other party members.

Prosecutors are expected to charge Mr Erbakan and other former Welfare members with a range of offences including sedition and incitement to hatred. Yesterday parliament sent files on Mr Erbakan to the criminal courts.

The courts have issued the first arrest warrant for a firebrand former Welfare MP. Sevki Yilmaz is wanted on 25 charges, mostly for alleged slandering of officials in speeches. He and one other MP are believed to have fled the country rather than risk arrest and imprisonment.

Although Welfare's 149 MPs, the largest bloc in parliament, were stripped of their party affiliation and lost their seats on parliamentary committees, a group of 30 Islamists joined the Virtue party, a grouping created by Welfare supporters.

However, Mesut Yilmaz, the prime minister, warned yesterday that state prosecutors would apply to the courts to shut down any new party advocating Islamist values. In a speech yesterday he appeared to rule out early general elections to exploit Welfare's closure and disarray in the party.

The party's closure has unleashed a succession war between traditionalists close to Mr Erbakan and younger party leaders. Mr Erbakan is championing Recai Kutan, a trusted aide, who would allow him to continue running the party. Tayyip Erdogan, the Islamist mayor of Istanbul, is the leading candidate of grassroots party organisation.

Brussels asked to block nuclear ban

By Tim Burt in Stockholm

Sweden's largest independent power generator yesterday called on the European Commission to block government plans to decommission the first of the country's 12 nuclear reactors this year.

Sydkraft, which has been ordered to close its Barsebäck I reactor by July, has filed a complaint in Brussels claiming that the government was flouting EU competition rules by proceeding with the plan.

Lawyers acting for Sydkraft have told the Commission's competition directorate that Vattenfall, the state-owned power generator, would be unfairly strengthened if the reactor was shut down.

The Commission has upheld similar complaints in the past, most notably in 1995 and 1996, when it ordered the Spanish and Italian governments to change pricing plans that offered artificial protection to state-owned mobile phone operators.

The legal action is the latest twist in Sweden's protracted attempt to phase out nuclear power, which supplies half of the country's electricity.

Proposals to shut Barsebäck I – one of two reactors at Sydkraft's west coast power station – represent the first concrete measures to reduce Sweden's reliance on nuclear energy since 1980, when voters endorsed the move in a referendum.

Successive governments have failed to begin the closures after a combination of industry opposition and the lack of alternative power sources.

In its latest attempt to halt the programme, Sydkraft accused the Social Democrat government of attempting to remove a third of its output while leaving Vattenfall untouched.

John Ratliff, a partner in Stanbrook and Hooper, a Brussels-based competition law firm, said the Commission could order the Swedish government to stop the closure programme if it decided the plan infringed articles 90 and 86 of the Treaty of Rome.

"We would like to reach a negotiated settlement, but if the government is not going to be reasonable then we may have to seek injunctions through the courts in Sweden or Brussels," said Mr Ratliff, who is acting for Sydkraft.

Such injunctions could severely delay the closure programme, under which Sweden's second reactor is due to be shut down in 2001.

Yesterday, Anders Sundström, industry minister, said he regretted Sydkraft's legal action and reminded the company that the scheme had been approved by parliament.

"This move makes it more difficult to reach agreement between the state and Sydkraft," he said. "Government lawyers believe there is nothing in competition law to stop the reactor closures."

Critics of the scheme have accused the Social Democrats of bowing to pressure from the Centre party, which has championed moves to ban nuclear power, to help prop up their minority administration.

EU farm plan likely to disappoint reformers

By Michael Smith in Brussels

Wealthy landowners seem likely to keep the bulk of their European Union subsidies in spite of calls for a limit to hand-outs.

Proposals by the European Commission, the EU's executive, would mean that farmers' claims for up to Ecu100,000 ($110,000) in direct aid payments would be met in full. The EU would then pay 80 per cent of the next Ecu100,000 claimed and 75 per cent of claims above Ecu200,000.

The proposals, still to be finalised, form part of a wide-ranging reform of the Common Agricultural Policy planned for 2000-2006 as the European Union prepares for expansion into central and eastern Europe.

Among other controversial suggestions, the Commission wants to give member states the authority to allocate up to 30 per cent of aid payments in the beef and dairy sectors.

Support prices for milk, beef and cereals are to fall by up to 30 per cent. There may however be an increase in milk quotas with latest suggestions allowing for a rise of up to 2 per cent, 1 per cent for all countries and the other 1 per cent for mountainous regions.

The reform proposals, due to be finalised by the Commission on March 18, are provoking increasing concern among farming communities. Several thousand French farmers staged protests around the Commission's headquarters in Brussels yesterday. Mainly cattle breeders, they said the Commission proposals will hit extensive farming methods.

The proposals to restrict payments to large landowners will disappoint reformists who have been pressing for a cap on subsidies to individual farmers.

Commission officials at one stage were thought to be considering a maximum payment of Ecu100,000. Under existing arrangements several EU farmers receive subsidies of more than Ecu1m. However an Ecu100,000 limit would be unlikely to win support of countries with large farms including the UK France and Denmark.

The average size of UK farms is 70 hectares and that in France 38.5 hectares, while the EU average is just 17. Germany may also oppose phased payment cuts since they would have a big effect on large former state farms in eastern Germany.

A French farmer demonstrates in Brussels with a placard asking: "More farmers or more unemployed?" Reuters

EU to allow Iran contacts

By Lionel Barber in Brussels

The European Union yesterday agreed to lift a ban on high-level contacts with Iran in an attempt to strengthen what it hopes are moderate political forces in Tehran headed by President Mohammad Khatami.

The policy shift is being watched carefully by the US, which is more cautious about the prospects for a change in Iran's behaviour and suspicious about Europe's enthusiasm for renewing business and political ties.

EU foreign ministers in Brussels said recent developments in Iran were "encouraging" and the EU should respond positively by gradually expanding political contacts. The statement struck a balance between French and Italian pressure for a rapid normalisation and the more cautious approach favoured by Britain and Germany, diplomats said.

Robin Cook, UK foreign secretary, who chaired the meeting, said it was time to respond to the "shoots of glasnost" in Iran and take steps to end the regime's political and economic isolation. To continue the policy of exclusion from the global community would be counter-productive.

The EU suspended its "critical dialogue" and imposed a ban on high-level contacts after a German court ruled last April that Iranian leaders had ordered the 1992 killing of three Kurdish dissidents in a Berlin restaurant.

The EU move marks a breakaway from the US-led "containment" policy toward Iran, though there are signs that the US, too, would like to respond to President Khatami's overtures.

It also comes ahead of an expected move by the US administration to declare that a $2bn investment project in Iran, involving Total, a French oil company, violates US sanctions law. However, President Clinton is expected to delay action for 90 days in the hope that the EU will sign up to firm commitments blocking technology transfer and favourable loans to Iran.

British officials said the EU hoped to mollify US criticism and win a presidential "waiver" on sanctions with renewed pledges to block Iranian efforts to acquire weapons of mass destruction.

Estonia helps Russians feel at home

Anthony Robinson visits a town where prosperity is encouraging integration

The Estonian border town of Narva, where more than 95 per cent of the population are Russian-speaking Soviet-era immigrants and their children, used to be a text-book example of the human problems created by the disintegration of the Soviet empire.

But today, as Estonians celebrate the 80th anniversary of the establishment of their first independent republic and approach their eighth year of regained independence after 45 years of Soviet domination, the city is starting to relax and enjoy a modest prosperity. It is attracting foreign investment and creating a new role as potential regional hub for business and trade with St Petersburg and north-western Russia.

The atmosphere has improved greatly since the first months after the unilateral declaration of independence in August 1991 when the people of this fortress city, like 25m other ethnic Russian, Ukrainian and former Soviet citizens, found themselves relegated overnight to humiliating second class status as a powerless minority in a foreign state. Adding insult to injury, many found themselves viewed with suspicion if not outright hostility as a potentially disloyal fifth column.

For Narva, which first became part of the Russian empire in 1709, independence was particularly painful as it physically divided the city in half.

The bridge across the Narva river used to link the city proper with Ivangorod, then the eastern suburbs. But Ivangorod, run-down and poor with its temporary town hall crumbling and windowless, is now a separate Russian town. It lies across an international border which will become Russia's border with the European Union when Estonia becomes a full member of the EU around the turn of the century.

Former Soviet citizens found themselves relegated to humiliating second class status

For the crowds of patient, mainly old people with lined peasant faces who trudge across the bridge for regular family visits a special multi-entry visa regime only marginally improves the bureaucratic hassle of their new daily lives.

But life is definitely improving for thousands of workers who faced a bleak future of unemployment and poverty only five years ago. Then the huge Soviet-era textile and arms factories faced bankruptcy and the giant shale-oil fired power station outside the city was a target for closure on ecological grounds. Moscow did not help by unilaterally imposing a double tariff regime on Estonian imports which forced border traders to seek circuitous routes via Finland or Belarus.

As the Estonian economy generally started to boom foreign investors took over the giant Kreenholm textile factory, upgrading quality and finding new markets in western Europe. Employment has fallen to just over 5,000 from the 11,000 employed in the 1960s but working conditions have improved and wages, although still low, are paid regularly.

Another Swedish company took over and converted the big, modern arms factory which used to employ over 6,000 workers, while NRG, a US power company, is currently negotiating to take a 49 per cent stake in the power station, which it has pledged to modernise and upgrade.

Anatoli Paal, the chief executive of Balti Elektrijaam, the power station complex, is also chairman of the city council.

"Every year we run a poll on citizenship attitudes. The latest poll showed that 75 per cent of parents say they want to become Estonian citizens while 95 per cent want their children to become Estonians," he says. Another favourable indicator is growing support within the city council for the city budget which has risen from EEK70m ($4.7m) three years ago to EEK245m in 1998.

Although more and more ethnic Russians are opting to learn at least the minimum level of Estonian required to obtain citizenship the city remains overwhelmingly Russian-speaking, which makes practice virtually impossible.

The national government, based in Tallinn, is aware of the problem and knows that its ability to convert former Soviet citizens into loyal citizens of the new state will help it join the EU.

Mart Siiman, the prime minister, says: "Part of the problem is that so few teachers speak Estonian in areas like Narva. So we are upgrading the status and pay for teachers of the state language. We also send children from the north-east to stay with Estonian families and learn our culture the best way, at home."

Estonia survey, separate section

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NEWS DIGEST

Sanctions eased on Yugoslavia

The US yesterday took a small step towards easing its sanctions on rump Yugoslavia as an acknowledgement of support given by President Slobodan Milosevic to the new, pro-western Bosnian Serb leadership.

Robert Gelbard, US envoy to the Balkans, said he had told Mr Milosevic that the US was willing to let Yugoslavia take part in the Southern Europe Co-operation Initiative (SECI), a regional trading group proposed by the US, increase its diplomatic representation at the UN and open a consulate in New York. The Yugoslav airline, JAT, would be able to obtain landing rights for charter flights in New York.

The Yugoslav government had exerted a "significantly positive influence" that had allowed the formation of the new government in the Serb-controlled half of Bosnia, Mr Gelbard said. But, he added, the conditions did not exist for the lifting of the US "outer wall" of sanctions that block Yugoslavia's access to international financial institutions and full membership of the UN.

Mr Gelbard said relations between the US and Yugoslavia were "more positive" and, hopefully, at the start of a process of development. Diplomats said the four concessions were mainly cosmetic in terms of economic importance but sent a strong signal to Mr Milosevic that compliance with western demands would be rewarded.

US demands on Yugoslavia include full co-operation with the UN war crimes tribunal, progress in resolving the conflict with ethnic Albanians in Kosovo, and democratisation. *Guy Dinmore, Belgrade*

■ ALBANIAN GUNMEN

Town retaken from 'terrorists'

Albania's Socialist government said interior ministry forces had yesterday regained control of the northern town of Shkoder from "terrorists" who had looted and torched banks, shops and official buildings. It was the worst outbreak of violence in Albania since last March when Europe's poorest country plunged into anarchy following the collapse of pyramid investment schemes.

About 20 gunmen attacked Shkoder on Sunday, seizing and burning the city hall, banks, court buildings, the university and private shops. Witnesses said residents joined the looting. The gang also stormed the main police station, freeing about 30 prisoners accused of murder and arming them. No deaths were reported.

Ben Blushi, spokesman for the prime minister, Fatos Nano, said it was not yet known whether the "terrorist gang" was politically motivated. Last month about 20 sacked policemen attacked the same station in protest against the appointment of a new police chief.

Shkoder, 120km north of the capital Tirana, is a stronghold of both the Democratic party of the former president, Sali Berisha, and royalists who demand the return of Albania's monarchy.

"The crisis is deepening daily and the situation is explosive almost everywhere," Mr Berisha said by telephone from Tirana, yesterday. He called on Mr Nano to form a technical government and hold fresh elections. *Guy Dinmore, Belgrade*

■ AUSTRIA

Call to EU on Slovakia

The president of Austria, Viktor Klima, yesterday called on the EU not to cold-shoulder Slovakia in a way that might jeopardise political stability in central Europe. Austria will assume the European Union presidency later this year.

In a speech in London, Mr Klima conceded the Slovak government's current poor record on democratic rights justified its exclusion from the forthcoming accession negotiations with five other central European states. But he expressed confidence that if it were not deliberately isolated, Slovakia would soon respond to EU pressure and incentives and improve its political performance. For his part, Mr Klima said he was promoting dialogue between Slovakia and Hungary.

Mr Klima also held talks yesterday with Tony Blair, his UK counterpart, to plan Austria's takeover of the EU presidency from Britain on July 1. In his speech to the London School of Economics, Mr Klima made clear he plans to continue with the Blair agenda, even to the extent of adopting the same slogan of a "people's Europe". The social democrat chancellor also endorsed Blairite policies for labour flexibility. *David Buchan, London*

■ POLISH STEEL

Privatisation adviser sought

Poland will be seeking an adviser for the privatisation of the steel sector later this year, Emil Wasacz, the treasury minister said yesterday. The treasury would be asking for bids after the government approves the plan next month.

Mr Wasacz's statement puts a question mark over a call earlier this month by Poland's two leading steel mills, Sendzimir in Krakow and the Katowice steelworks, for strategic investors. The two mills have asked potential investors to make preliminary bids by the end of this week. "This is an initiative by management," Mr Wasacz said yesterday. He added that investors would be better advised to wait until the government appointed adviser had presented an overall privatisation strategy for the sector. *Christopher Bobinski, Warsaw*

■ GEORGIA HOSTAGES

Talks with kidnappers agreed

Eduard Shevardnadze, Georgia's president, agreed yesterday to hold talks with a representative of the gunmen holding three UN military observers. The hostages have been held for four days. The kidnappers, supporters of Zviad Gamsakhurdia, the former president ousted in a 1992 coup, said they were sceptical of the offer.

Mr Shevardnadze has said the kidnappers are the same men who were behind an assassination attempt against him two weeks ago. However, they deny this. "The government is again ready to start a dialogue with Gamsakhurdia followers," Mr Shevardnadze said in a radio address.

A group of heavily-armed gunmen seized four UN representatives, along with their Georgian driver, last Thursday after shelling UN headquarters in the western town of Zugdidi. Police have encircled the house, which belongs to a local municipal leader, also held hostage.

On Sunday they released one of the four observers, as a "gesture of goodwill". *AP, Dzhikhashkari, Georgia*

■ UKRAINE

Crimea's deputy PM dies

The deputy prime minister of Ukraine's troubled region of Crimea died yesterday, two weeks after being critically injured in a bomb attack.

Olexander Safontsev sustained multiple shrapnel injuries on February 5 when a bomb exploded as he was entering a hotel in the Crimean capital Simferopol.

A first deputy chairman of Crimea's Council of Ministers, Safontsev was responsible for the industry and energy sector in Crimea, a Black Sea peninsula which is an autonomous region region of Ukraine.

Although the reasons for the attack are not yet known, Mr Safontsev was close to Crimea's prime minister, Anatoly Franchuk, himself an ally of Ukraine's president, Leonid Kuchma.

Police have arrested 10 people in connection with the investigation into the assassination. *Charles Clover, Kiev*

Speculation perils persist at endgame

Preparing for Emu

Wolfgang Münchau on a view that pre-announced Emu conversion rates may not stop attacks on a member's currency

The risk of currency instability and the threat of speculative attack have been a regular cause of concern for the European Union during its long trek towards economic and monetary union. Largely because of such worries, finance ministers decided last September that bilateral conversion rates among participating members would be announced on May 2 this year. The idea was to minimise speculation in the months before Emu begins on January 1, 1999.

But the danger of instability during the interim between May and December this year may have been underplayed, according to a leading international economist.

Recent economic research suggests that while the "pre-announcement" of bilateral rates may reduce the risk of speculative attacks in the run-up to Emu, it does not completely eliminate it.

The "endgame" before the formal start of the new system is particularly important. There would be a serious problem if a currency was to trade at a different level from its pre-announced conversion rate on the last day of trading under the old system on December 31, 1998.

In a discussion paper* on the topic, Maurice Obstfeld, a US-based international economist, writes: "The rules of Maastricht and Madrid simply do not allow governments to set conversion rates independently of market developments, and that constraint is fatal to credibility." That means finance ministers will have little choice but to accept whatever rates financial markets give them at the close of business on December 31. Pre-announced conversion rates are therefore not legally binding. They are merely statements of preference.

The single most important constraint on the process is the rule, set out in the Maastricht treaty (Art. 109l,4)that final conversion rates are to be decided *after* the Emu's final stage begins on January 1, 1999.

Another condition was added in 1995, when EU leaders decided at the EU council in Madrid that the Ecu was to convert to the euro at a rate of one-to-one, a move which further limits finance ministers' ability to set rates.

The way currency markets have behaved in the run-up of Emu provides little or no evidence of an imminent speculative attack. Most investors expect that finance ministers will chose the current central parities of the exchange-rate mechanism as the bilateral conversion rates.

Since most EU currencies are currently trading close to their central parities, such a decision would steer clear of devaluations and revaluations of existing currencies. It would therefore be relatively uncontroversial.

But even if the markets are in no mind to speculate, finance ministers may not be able to achieve the pinpoint landing on December 31 they so desperately need.

Mr Obstfeld draws a parallel with the UK's return to the gold standard in 1925. When Winston Churchill, chancellor of the exchequer at the time, set a fixed-rate to convert pounds into gold. he surprised the markets, which had not expected the decision would be implemented immediately.

Although the pound immediately increased in value in a reaction to Churchill's comments, it did so by less than the premium at which gold was trading on the morning of the speech.

Mr Obstfeld concludes that even if the markets had had an advance copy of Churchill's speech, gold would have still traded at above the fixed rate on the same morning.

"Translated into the context of Emu," he argues, this is "bad news for the pure pre-announcement approach": that is, even on the very eve of the new system, market rates may still not be consistent with the pre-announced rates set by finance ministers.

Indeed, residual differences between last day market rates and conversion rates could stem from a variety of factors in financial markets, such as liquidity shortages or overnight interest rates.

Several solutions have been proposed, including last minute central bank intervention – although such a strategy would never be pre-announced. Alternatively, participating EU members could decide to lock exchange rates on May 1, even though rates would formally need to be re-set at the beginning of 1999. But that system could be prone to speculative attacks during the eight months from May to December.

Obstfeld proposes an alternative system in which national central banks offer to buy and sell forward contracts in euros for January 4, 1999, the first day of trading under Emu. The value of these contracts would be computed using pre-announced conversion rates in May. The idea would be to let markets eliminate any difference between pre-announced and real conversion rates through arbitrage.

Such a scheme would only work if no country defected from its commitment to join Emu. But, in any case, if future members of the single currency decided to turn their backs on the euro, the EU would have other, far greater problems to worry about than endgame perils.

Maurice Obstfeld, "A Strategy for Launching the Euro", CEPR discussion paper No. 1732, October 1997. Centre for Economic Policy Research, 90-98 Goswell Rd, London EC1V 7DB.

Dispute grows over terms of Telecom Italia privatisations

Agnelli stake sparks fears on telecoms

By James Blitz in Rome

A recent boardroom upheaval at Telecom Italia, Italy's biggest telecommunications company, has set off a new political dispute about corporate governance.

At the centre of the controversy is the claim made by some leading politicians that the Agnelli family, owners of the Fiat automotive group, have increased their grip on Telecom Italia in spite of having only a very small stake.

Shortly before privatising Telecom Italia at the end of last year, the government created a core of strategic shareholders at the company to ensure it could not be bought up by one individual and to stabilise the management in its early years.

This group makes up the bulk of the company's board.

The Agnelli family holding company, Ifil, bought a 0.6 per cent stake in the core group, acquiring a seat on the board. Overall, the core of strategic shareholders owns about 7 per cent of the company.

Italian politicians have noted that Gian Mario Rossignolo, chairman, who ousted Tomaso Tomassi di Vignano as chief executive last week, spent 22 years working for the Fiat group. The general manager in charge of strategy appointed in last week's shake-up has also been the Ifil representative on the board.

In a speech at the weekend, Massimo D'Alema, the leader of the Democrats of the Left (DS), the largest party in the governing coalition, expressed concern that the Agnelli family had "acquired enormous power with a stake that is so small".

Vincenzo Visco, Italy's finance minister, also expressed concern. Asked by the La Repubblica newspaper whether it was right that a shareholder with 0.6 per cent of the company's capital could run Telecom Italia, he answered: "It is not and it is a sign that something has gone wrong."

Senior figures at Telecom Italia yesterday acknowledged that the Ifil group may have slightly increased its control of the telecommunications company. But they argued that Ifil's increased influence was largely due to its extensive experience in managing a wide range of companies.

"The fact is that the approval of Rossignolo of chairman and everything he has done since could not have happened without the backing of other leading shareholders on the board, who have no connection at all with the Agnellis and Ifil," said one leading figure.

The row over recent developments is likely to raise questions over the implications of setting up a system of core shareholders in privatisations

Some leading commentators tried to play down the row over the Agnellis. Eugenio Scalfari, the former editor of La Repubblica, claimed Mr Rossignolo, a figure of considerable international experience, "would be more independent than the people who appointed him might think".

Nevertheless, Franco Debenedetti, a leading free-marketeer within the government's coalition, took the view that Telecom Italia should have been exposed to more competition in the first place.

"The government's mistake thus far is that it has been too slow awarding licences for fixed and mobile telephony – and that it failed to break up the company prior to privatisation," he said.

TV and politics feed off German carnival

A Cologne Carnival float depicts Chancellor Helmut Kohl chopping into a pile of D-Marks with an axe marked 'euro' AP

The nation has nearly 5m unemployed and its domestic economy is as flat as a pancake, but this year's pre-Lenten carnival in Germany has broken all records.

Businesses closed and public services were heavily curtailed yesterday as millions of clowns, chimpanzees, "red Indians" and 18th century infantrymen of all ages took to the streets of Cologne, Düsseldorf, Mainz and other Rhineland cities for the traditional carnival high point, the noisy and colourful *Rosenmontag* parades.

The Cologne edition of Bild newspaper, which has breathlessly chronicled the follies and feuds of the carnival season since it began at 11:11 on the morning of November 11 last year, estimates this year's festivities have generated business worth DM1bn ($550m) in the city alone, about twice the level of five years ago. The 20 or so German manufacturers of carnival outfits and accessories predict sales this year will be sharply higher than last year's DM250m.

Even without this year's unseasonably mild weather, the 1998 carnival was always likely to be an extravaganza. The season has lasted two weeks longer than in 1997 because of the late onset of Lent. It has also marked the 175th anniversary of the modern Cologne carnival, when the Protestant state of Prussia decided to allow the formation of carnival societies in its recently acquired Roman Catholic Rhineland territories to enable inhabitants to let off steam in a disciplined manner.

For the organisers of the big processions, order is still a very important element in a celebration that long ago lost any claim to spontaneity. The processions are planned to the last detail such as the maximum weight (50 grams) for the sweets and trinkets to be thrown into the crowds from the floats. In a weekend radio interview with the leading figures of the Cologne carnival, the all-male "triumvirate" of prince, farmer and maid found it difficult to get away from the importance of "discipline" and "seriousness".

The pull of gravity partly reflects the way carnival has become a showcase for politicians, keen to show a lighter side to their characters. Carnival is also becoming big business as organisers faced with sharply rising costs have found ready finance from Germany's television stations.

A determined viewer could have watched 124 hours of carnival jollity in this season's final 10 days, 39 hours more than last year. Among high-kicking drum-majorettes and red nosed raconteurs, the viewer would have witnessed Norbert "Nobbie" Blüm, the social affairs minister, being tipped head first into a giant cooking pot; Theo Waigel, the finance minister, dressed as a pirate, and Helmut Kohl, the chancellor, weighed down by more than a kilo of carnival medals as he welcomed 120 revellers to the seat of government in Bonn.

Television is proving to be both cause and cure of rampant inflation in carnival. It now costs an estimated DM200,000 to carry out the duties of a prince in a city such as Cologne, compared with DM100,000 two years ago. The *Rosenmontag* processions in Cologne and Düsseldorf cost more than DM1.5m each to stage. Television has come to the rescue, paying ever higher fees to screen events. The WDR public TV channel, for example, is thought to have paid between DM900,000 and DM1m to broadcast yesterday's parade in Cologne compared with DM60,000 in 1995.

However, the nationwide televising of carnival means it is becoming ever more difficult to escape the phenomenon. Carnival parades and variety shows have already spread outwards from Cologne and Mainz, its Rhineland strongholds, to such unlikely places as Braunschweig, close the former east German border, and Papenburg in the far north west of Germany.

This is bad news for the 68 per cent of Germans, who according to an opinion poll from the Wickert Institute, are left unmoved by carnival. They have as little chance of stopping its progress as do the opponents of the euro, who also account for about two-thirds of Germany's population.

Peter Norman

NEWS: ASIA-PACIFIC

NZ power cut 'will hit output and exports'

By Terry Hall and agencies

A massive power failure in the centre of Auckland, New Zealand's largest city and business hub, is forecast to cost its economy millions of dollars in lost exports and output.

The centre of the city has been blacked out after power cables supplying the central business district failed. Authorities warned that supplies might not be restored for at least another week.

Hundreds of businesses, including banks, were closed yesterday as the city centre struggled to cope with the shutdown. Max Bradford, the government's energy minister, said losses were likely to run into "tens of millions of dollars". Private sector economists said growth in gross domestic product might be reduced by between 0.25 to 0.35 percentage points in 1998 because of the cut.

The Auckland port authority said the power failures had hit at the worst possible time, the height of the export season. The port is New Zealand's main export outlet and has nearly 1,000 refrigerated containers filled with export cargo such as butter and meat, worth about NZ$25m ($14m).

The port uses substantial amounts of electricity to refrigerate export produce, but has used generators since Friday. The port said 24 ships were due in the next few days but it had told at least three big container shipping clients to go elsewhere, because of the limited services available.

Mercury Energy, the electricity utility, said it did not know what had caused the multiple failures, and said there might be only enough mains power this week for emergency services and hospitals. "It's the most incredible, freakish bad luck you could ever imagine," said Jim Macaulay, the Mercury chairman.

Mercury is majority-owned by the Auckland Energy Consumer Trust, a public body of Auckland local taxpayers. Mercury has no plans to compensate businesses and residents for losses caused by the failure, unless it is shown to have been negligent.

The New Zealand Insurance Council said most affected businesses would not be able to claim against their insurance, unless they had special protection against business interruption caused by power failure.

Central city residents have been evacuated, with the city's hospitals and hotels running on emergency generators but with substantially reduced services.

The government yesterday announced a public inquiry into reasons for the failure of the four power cables which supply the five square kilometres of the central city, and the handling of the problems by Mercury.

Mercury has suggested the problem was caused by breakages and shrinkage in the cables, due to hot and dry weather. But the company's critics say it has not spent sufficient money since 1993, when it ceased to be owned by central government, on upgrading its cables.

Japan to push on with bank fund plan

By Gillian Tett in Tokyo

Japan's plans to inject public funds totalling Y13,000bn ($102bn) into its troubled banks should not be derailed by the corruption scandals in the sector, an influential government committee said yesterday.

Yoko Sazanami, the chairwoman of the so-called committee of seven wise persons appointed by the government to devise the criteria on which banks would qualify for state assistance, said: "Public fund injection should be considered separately from the banking scandal."

The committee's assurance means the government will press ahead with the massive recapitalisation of the country's banks, despite the initial doubts of some banks.

Several banks have said they were reluctant to participate in the initiative because it may mean further scrutiny by the seven wise persons.

Some banks feared acceptance of public money would make them vulnerable to new government pressure. Other banks which have become entangled in scandals simply want to avoid additional scrutiny.

The LDP, however, has stepped up pressure on the banks to participate, saying the success of the scheme was essential to restore confidence in the country's financial sector. They have said the criterion for qualification would not be severe.

Last week parliament passed a bill which would allow up to Y13,000bn of public funds to be used to buy preferred stock in banks to strengthen their capital base. It was part of a Y30,000bn support plan for the financial sector.

Suharto 'drops his currency board plans'

By Sander Thoenes in Jakarta

Senior officials and diplomats in Indonesia believe President Suharto has quietly shelved controversial plans for a currency board but will not admit it for fear of losing face shortly before he is due to re-elected for a seventh term.

"The president has not made any other decision since he instructed parliament and the finance ministry to prepare for a currency board system," Mar'ie Muhammad, finance minister, told a parliament hearing yesterday. "The president will decide when the currency board system will be implemented."

The finance minister's comments leave the government formally committed to introducing a currency board, which would peg the rupiah against the US dollar, backed by currency reserves and a pledge to buy every rupiah with dollars.

But many officials, diplomats and business executives believe the president has quietly shunned the controversial quick-fix and, following intense international criticism, is now reconciled to a more conventional, and painful, economic readjustment.

"The currency board is dead," one brokerage analyst said. "It was a daft idea to begin with."

President Suharto's apparent reversal lifts the threat of the International Monetary Fund cancelling its $43bn rescue package. The Fund has said a currency board is premature and inappropriate, given Indonesia's economic fundamentals.

Disappointment over a Group of Seven meeting last weekend, which offered little to Indonesia and its neighbours, pushed down the rupiah from Rp9,100 to the dollar to Rp9,650 yesterday; some traders suggest the rupiah is heading for a big slide this week as expectations of a currency board fade.

There is talk that Mr Suharto is considering a dual-tier exchange rate, which would offer dollars at Rp5,000 only for essential imports such as rice, wheat and cotton, but economists fear this would be difficult to enforce.

The weak rupiah has wrecked government efforts to stabilise prices of imported rice, milk and other products, and sparked sporadic food riots.

Police arrest Karlina Laksono, the organiser of a protest over rising prices, during a demonstration by the Indonesian women's group Mothers Care in Jakarta yesterday AP

Police yesterday detained three women in Jakarta who, along with some 50 others, defied a four-week ban on public meetings to protest at the tripling of milk prices.

Indonesia has asked the World Bank to co-ordinate the procurement of food aid, and Australia will open talks this week with Jakarta on an emergency food aid programme.

Japan, the US and other trading partners have tied an offer of extra trade credits to the scrapping of the currency board plan.

They have stuck by a broad reform agreement signed by the IMF and Mr Suharto in January. An IMF delegation is reviewing progress on that agreement this week, and some Fund officials have already indicated the record is mixed at best.

After an impressive flurry of decrees in the first week after the signing, the government has given out little news.

Several trading monopolies and cartels that were to be axed by February 1 are still operating, including some involved in wood products and newsprint. The chairman of the state food logistics agency yesterday said it would keep its monopoly on sugar distribution until prices stabilised.

IMF officials are believed to be sympathetic to the delays in dismantling the logistics agency, Bulog, given widespread shortages and lack of financing for private entrepreneurs to take its place.

But Bulog is also under scrutiny for alleged widespread corruption. One trader claimed a Bulog official offered him discounted sugar and rice last week that was meant for distribution to the country's poor.

Clear progress has been made on banking reforms, vital to the country's recovery. A bank restructuring agency has been set up, legislation is forthcoming and the central bank has set a deadline for the end of the year for banks to raise their capital adequacy ratio.

This is likely to force most of Indonesia's 200-odd banks to merge.

But Tom Inglis, head of research for ING Barings in Jakarta, cautioned that bankers might be tempted to keep bad loans on the books to avoid lowering their ratio further.

Australia seeks to ease Jakarta's woes

By Gwen Robinson in Sydney

Australia launched a campaign yesterday to help defuse tension in Indonesia, urging greater leniency in conditions set by the International Monetary Fund and sending senior aid officials to Jakarta to discuss emergency relief assistance.

The campaign, drawn up last week, was seen as a response to growing fears that civil unrest in Indonesia might cause regional instability and could trigger a flow of refugees to Australia.

Alexander Downer, Australian foreign minister, said the cabinet remained committed to the structure of the US$43bn IMF rescue package as "the only solution" to Indonesia's crisis. Australia agreed to contribute US$1bn as a back-up loan if needed once the IMF funding is exhausted.

Mr Downer urged adjustments to the proposed reform measures, including delaying the removal of some subsidies and the imposition of price controls over staple goods. The modifications to the package should be offered to Indonesia in exchange for abandoning President Suharto's currency board proposal, Mr Downer added.

Australia, along with leading industrial powers, does not support Indonesia's proposed currency board system.

Australia plans to lobby the IMF and main donor countries, including the US and other G7 nations on its proposal to relax certain measures, he added.

"While Australia supports the IMF package, the IMF needs to be sensitive to the need for political stability in Indonesia... measures which generate widespread unrest will weaken, not strengthen, the capacity of the Indonesian government to reform the economy," Mr Downer said.

Australian aid officials arrived in Jakarta yesterday to discuss food aid for the country.

The main aim of Australian aid would be to alleviate food shortages caused by the prolonged drought and the collapse of the local currency, they said.

NEWS DIGEST

Banks ponder Korea terms

The campaign to win acceptance for South Korea's debt restructuring plan began yesterday as documents detailing the renegotiated terms were dispatched to banks around the world. Bankers have insisted that the new terms offered for $24bn of interbank loans falling due this year are not a debt rescheduling, since banks with loans outstanding to Korea can opt out of the deal.

But bankers say the deal, agreed in principle last month by representatives of 13 banks from 11 different countries, must still achieve a "critical mass" of acceptances. If some smaller creditors with few continuing business links to Korea decide to turn down the new terms, it will not be a disaster. However, at least $18bn of debt will have to be restructured to extract Korea from its payments difficulties, a banker warned yesterday.

Under the deal, short-term foreign currency loans made to Korean banks will be exchanged for new loans which are guaranteed by the state, and which run for one, two and three years. These loans will pay interest rates of 2¼, 2½ and 2¾ per cent over six-month Libor, the main benchmark for interbank lending.

By avoiding a formal rescheduling, the banks have ensured that their Korean debt will carry a lighter capital adequacy requirement. *George Graham, Banking Editor*

■ KOREA PM

Kim Jong-pil nominated

South Korea's president-elect Kim Dae-jung yesterday nominated former political rival Kim Jong-pil as his prime minister and asked the majority party to confirm him. But the nomination is subject to confirmation by the National Assembly, in which the Grand National party, the party of outgoing President Kim Young-Sam, holds a majority and has vowed to oppose the nomination.

Kim Dae-jung, who will be sworn into office tomorrow, forged a political alliance with Kim Jong-pil in the December 18 election in exchange for the prime minister's job.

Kim Jong-pil is an arch-conservative who held the position once before for four years under general-turned-president Park Chung-hee who ruled Korea through the 1960s and 70s. Kim Jong-pil played a key role in a coup d'état which brought Park to power in 1961, one of the reasons the Grand National party has used to oppose his nomination. *Reuters, Seoul*

■ OVERWORK CLAIM

Y52m damages for suicide

A Japanese court yesterday awarded damages to the family of a company employee who committed suicide due to overwork. A judge in central Japan's Okayama Prefecture ordered Kawasaki Steel to pay Y52m ($415,000) in compensation to the family of Junichi Watanabe, ruling that unreasonable working hours without rest led him to take his life.

Mr Watanabe, 41, jumped to his death from the sixth floor of a building in June 1991, after working for six months with only two days off. *Karoshi*, or death from overwork, is a phenomenon in workaholic Japan.

Last December, a judge in the industrial city of Nagoya threw out a case involving the death of a 36-year-old computer engineer working for department store-chain Matsuzakaya, saying that the period he worked overtime was not excessive. *Reuters, Tokyo*

■ VIETNAM

Corruption 'behind strife'

Vietnam's president Tran Duc Luong yesterday conceded that corruption lay behind months of recent rural unrest and said party and state officials had been instructed to learn lessons from the strife. Mr Luong, who was appointed president in September, told foreign correspondents that the country's decade-old economic reform process had achieved only limited success in improving living standards in rural areas. In some regions, he said, local officials had embezzled funds.

"This is a lesson for us," he said. "Our party and our state recognises that the discontent of the people in these cases was right. The party and state system have been asked to draw lessons so that all units can grasp and strictly follow party and state principles." *Reuters, Hanoi*

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

■ UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	98.2
1989	115.5	112.7	5.2	97.9	100.5
1990	116.2	112.4	5.5	82.7	97.7
1991	113.3	110.2	6.8	61.7	95.6
1992	117.0	113.6	7.4	61.8	100.1
1993	122.2	117.7	6.8	67.7	103.7
1994	129.2	124.0	6.0	79.0	109.4
1995	132.6	130.2	5.5	79.3	113.7
1996	137.5	134.7	5.4	77.0	118.3
1997		141.4	4.9	79.0	125.4
1st qtr.1997	4.4	5.0	5.2	79.9	122.6
2nd qtr.1997	2.9	4.3	4.9	77.3	123.8
3rd qtr.1997	4.6	4.9	4.8	78.9	127.2
4th qtr.1997		5.7	4.6	79.7	128.2
February 1997	4.3	4.6	5.2	81.2	122.9
March	4.0	5.3	5.2	79.0	123.2
April	3.1	4.7	4.9	78.9	122.5
May	2.2	4.3	4.8	73.3	123.6
June	3.5	3.9	5.0	79.7	125.2
July	4.7	4.7	4.8	78.7	126.2
August	5.1	6.0	4.8	77.7	127.4
September	4.1	5.0	4.9	80.4	127.9
October	3.5	5.7	4.7	78.5	128.7
November	4.4	5.6	4.6	82.6	128.0
December 1997		5.8	4.6	78.0	128.1
January 1998		5.4			

■ JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	122.6	113.1	2.5	135.2	95.7
1989	132.6	119.7	2.2	146.3	100.5
1990	141.6	124.5	2.1	149.8	100.8
1991	144.5	126.8	2.1	144.2	97.7
1992	139.7	119.0	2.1	124.2	92.2
1993	131.7	113.6	2.5	105.8	92.3
1994	129.4	114.5	2.9	99.4	95.9
1995	128.4	118.5	3.1	103.2	98.4
1996	132.6	121.7	3.3	115.3	100.5
1997	132.0	126.8	3.4	120.6	100.6
1st qtr.1997	9.0	6.4	3.3	121.5	101.6
2nd qtr.1997	−6.7	6.7	3.5	120.4	101.4
3rd qtr.1997	−1.5	4.2	3.4	121.7	100.6
4th qtr.1997	−2.9	−0.3	3.4	119.3	98.8
February 1997	1.8	3.5	3.3	117.2	101.6
March	23.0	7.5	3.2	118.4	101.8
April	−12.6	4.8	3.3	121.7	101.4
May	−3.6	7.5	3.6	121.3	101.5
June	−3.8	7.8	3.5	118.2	101.1
July	−2.2	5.0	3.4	120.6	101.0
August	−0.3	3.3	3.4	118.4	100.7
September	−2.0	4.3	3.4	125.8	100.2
October	−2.3	2.1	3.4	121.9	99.6
November	−2.2	−2.0	3.5	113.9	98.5
December 1997	−4.3	−1.0	3.4	122.3	98.2
January 1998					

■ GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	109.1	108.3	6.2	185.1	90.0
1989	111.9	111.4	5.6	219.5	94.8
1990	119.7	117.2	4.8	261.9	98.5
1991	125.0	121.7	4.2	297.9	96.5
1992	122.8	120.0	7.7	287.9	93.3
1993	119.7	112.6	7.9	229.0	91.2
1994	117.6	117.6	8.4	241.2	100.3
1995	118.5	119.4	8.2	268.3	101.5
1996	117.2	119.0	8.8	274.1	101.4
1997	115.6	112.6	9.9	282.8	109.6
1st qtr.1997	−0.5	4.1	9.4	273.1	106.0
2nd qtr.1997	0.6	2.0	9.6	275.6	108.8
3rd qtr.1997	−3.2	2.6	8.9	285.2	111.8
4th qtr.1997	−2.6	3.6	10.6	297.5	111.8
February 1997	0.1	6.6	9.4	274.1	108.1
March	−2.2	4.1	9.5	280.0	107.2
April	0.2	2.7	9.5	270.8	108.0
May	−2.8	0.5	9.6	275.8	108.8
June	−1.0	2.8	9.7	280.0	109.6
July	−3.7	8.4	9.7	280.0	111.3
August	−2.4	0.8	9.9	288.3	111.8
September	−3.5	0.6	10.0	287.5	112.2
October	0.5	4.2	10.0	290.8	112.1
November	−3.0	3.8	10.0	300.0	111.6
December 1997	−5.3	2.8	11.9	300.8	111.5
January 1998				301.6	

■ FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.9	107.2	10.0	135.3	98.4
1989	109.5	111.1	9.4	160.6	100.4
1990	110.4	112.8	8.9	163.2	98.2
1991	110.2	111.5	9.4	128.2	95.4
1992	110.5	110.1	10.4	109.5	96.6
1993	110.7	105.9	11.7	90.0	94.9
1994	110.5	110.0	12.3	104.1	102.2
1995	110.6	112.4	11.6		101.3
1996	110.2	112.6	12.3		100.7
1997	111.4	116.8	12.5		105.23
1st qtr.1997	−1.3	0.7	12.5		103.3
2nd qtr.1997	0.9	3.4	12.5		103.9
3rd qtr.1997	1.7	4.6	12.5		106.3
4th qtr.1997	3.0	6.3	12.4		107.1
February 1997	−3.1	0.7	12.5		103.4
March	−0.5	1.0	12.5		103.6
April	1.0	4.4	12.5		103.4
May	3.1	2.4	12.5		103.7
June	−1.5	3.5	12.6		104.5
July	2.7	4.7	12.5		105.7
August	−0.6	4.7	12.5		106.4
September	3.2	4.3	12.5		106.9
October	4.6	6.7	12.5		107.1
November	−0.6	5.0	12.4		107.1
December 1997	5.0	7.3	12.2		107.1
January 1997					107.5

■ ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1988	107.9	114.3	10.0	97.2
1989	116.9	118.7	10.0	98.2
1990	114.4	118.0	9.1	96.5
1991	114.8	116.9	8.8	96.8
1992	116.9	115.4	9.0	94.6
1993	113.5	113.0	10.3	95.4
1994	106.5	119.9	11.4	103.9
1995	101.3	127.3	11.9	104.4
1996	99.2	123.7	12.0	104.6
1997		126.8		112.6
1st qtr.1997	3.3	−0.5	12.2	108.6
2nd qtr.1997	4.3	2.2	12.1	109.7
3rd qtr.1997	8.6	3.0	12.1	113.1
4th qtr.1997		5.3		116.4
February 1997	2.5	1.1	n.a.	108.8
March	3.6	−0.7	n.a.	108.8
April	5.3	3.5	n.a.	109.0
May	7.5	2.7	n.a.	109.6
June	0.3	0.5	n.a.	110.6
July	8.8	3.6	n.a.	111.7
August	8.6	2.7	n.a.	113.2
September	8.2	2.7	n.a.	114.5
October	8.0	4.7	n.a.	115.4
November		4.7	n.a.	116.4
December 1997		6.6	n.a.	117.4
January 1997			n.a.	

■ UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	117.8	111.7	8.6	144.0	96.9
1989	120.1	114.0	7.2	124.3	95.8
1990	121.1	113.7	6.9	97.7	94.8
1991	119.4	109.9	8.8	68.6	95.2
1992	120.4	110.2	10.1	69.6	99.1
1993	123.9	112.6	10.4	76.5	104.9
1994	128.5	118.7	9.5	93.7	109.2
1995	129.9	121.2	8.7	107.4	111.0
1996	133.7	122.6	8.2	131.1	112.3
1997	140.6	124.4	7.1	162.0	114.5
1st qtr.1997	4.6	1.3	7.5	156.0	114.0
2nd qtr.1997	5.4	1.6	7.4	158.6	113.8
3rd qtr.1997	5.2	2.2	7.0	166.5	114.3
4th qtr.1997	5.6	0.7	6.6	166.7	115.8
February 1997	4.5	1.5	7.5	156.9	114.0
March	4.7	0.3	7.4	159.0	114.1
April	4.9	2.3	7.3	157.0	114.0
May	5.6	−0.1	7.4	156.9	113.6
June	5.8	2.5	7.3	161.8	113.8
July	6.4	2.7	7.2	162.3	113.9
August	5.4	2.3	6.9	166.3	114.2
September	3.9	1.6	6.8	170.9	114.8
October	6.5	1.6	6.7	176.8	115.6
November	4.9	0.6	6.6	164.3	116.1
December 1997	4.9	−0.1	6.5	158.6	115.8
January 1997	5.5				

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

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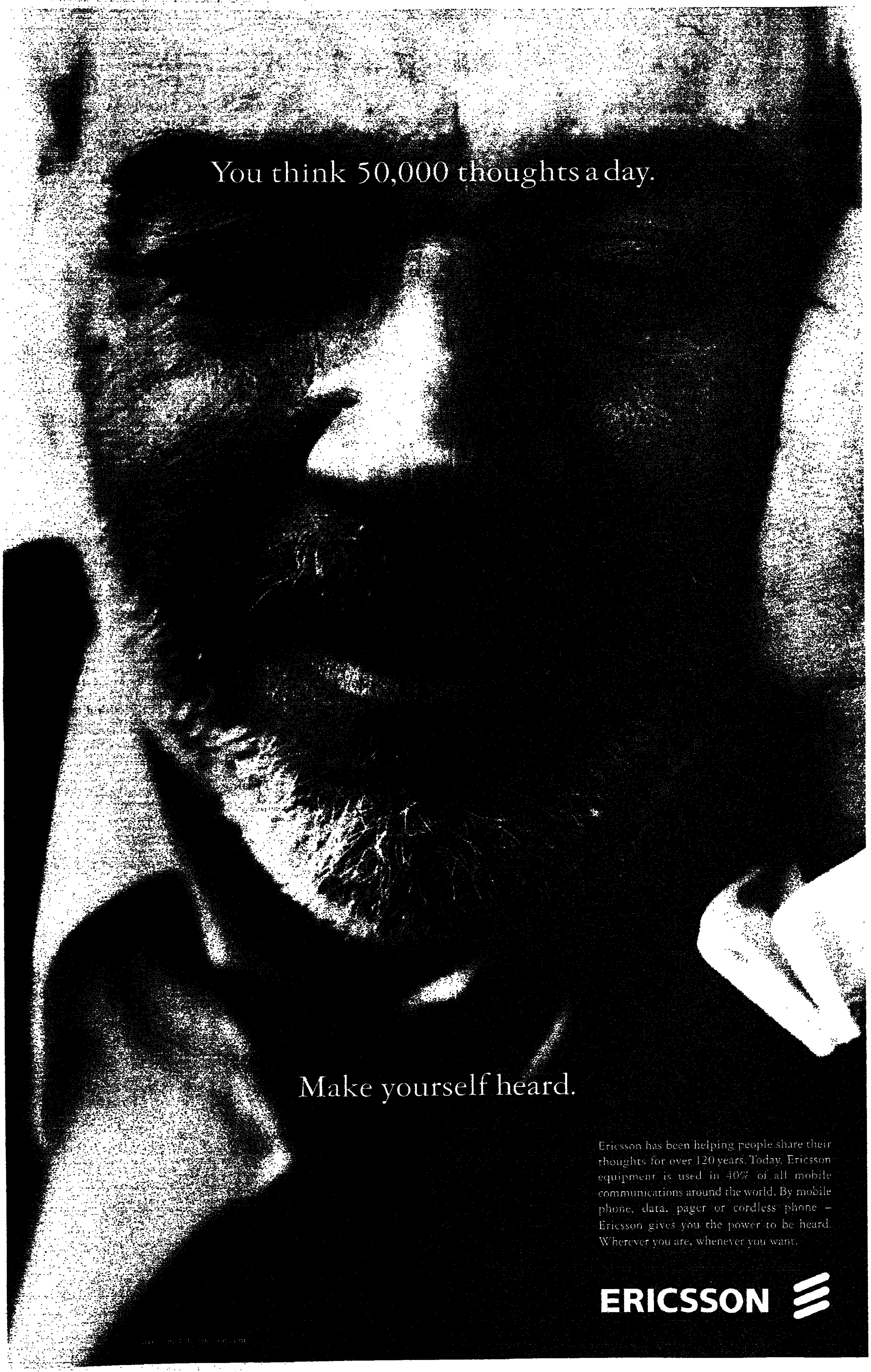
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UNITED NATIONS

Annan efforts take UN back to centre-stage

If Kofi Annan, United Nations secretary general, wins approval from the Security Council and manages to make the deal stick, he will have helped return the United Nations to centre-stage.

For many of the UN's 185-member states, failure to reach an agreement and subsequent military action would have sounded the death knell for the United Nations. Mr Annan has accomplished, at least for the time being, what he set out to do – to avert US-led military strikes against Iraq.

The US and Britain will now come under pressure to postpone plans for military action and allow the secretary general time to implement the deal signed yesterday in Baghdad.

Diplomats yesterday welcomed Mr Annan's success but reserved judgment until they learned the details of the deal reached yesterday in Baghdad.

In the face of US resolve to use military force unless Iraq's president Saddam Hussein gave UN weapons inspectors unrestricted access, UN diplomats said Mr Annan was unlikely to return to New York with a deal that fell short of Washington's requirements.

But other UN observers questioned whether the soft-spoken Mr Annan would have been able to convince the Iraqi regime to abandon its objections to the UN mission to dismantle Baghdad's arsenal of deadly weapons.

Mr Annan will report to the Security Council today. Ahead of Mr Annan's return, Iqbal Riza, his chief-of-staff, yesterday afternoon briefed the five big council powers – US, Britain, Russia, China and France – about the deal.

Before heading for Baghdad, Mr Annan, was careful to stitch together a consensus among the five permanent members, consult with the Council's 10 elected members and talk with world leaders, from the West, Russia, and the Arab world. He wanted to make sure, he said, that he had "everybody on board" if he returned with an agreement in the biggest challenge since he took office 14 months ago.

Britain will now press forward with a resolution nailing down the agreement and also give full authority to the UN to respond "rapidly and by whatever means are necessary" should Mr Saddam break the agreement, said a spokesman for Tony Blair, British prime minister.

The staunchest American ally on the council, Britain has said that another resolution declaring Iraq in "material breach" of the 1991 ceasefire terms was not legally necessary but politically desirable as a tool to persuade Iraq to comply with the UN.

On the basis of previous experience with Mr Saddam, both the US and Britain still reserve force as an option if Iraq refuses to meet UN demands. A new resolution would also pave the way for further military action in the event Iraq fails to meet UN demands.

Mr Annan's success in bringing the UN back to the centre of world politics, hinges not only on whether the US backs this agreement but also if Washington pays more than $2bn in outstanding dues.

Diplomats last week ridiculed American insistence that military action was necessary to uphold UN authority since Washington's failure to pay its arrears has hard hit the world body.

The secretary general, the unspoken American and British candidate to succeed the discredited Boutros Boutros Ghali, still has to win over the Republican-dominated Congress.

Even as the agreement was announced, Republican Senator John McCain criticised the Clinton administration for giving the UN too important a role. He said: "It should be the United States of America that does the negotiations and not the secretary general of the United Nations."

Laura Silber

CONTROVERSIAL WEAPONS INSPECTOR

UN will keep Australian diplomat under scrutiny

Butler: Iraq sees him as America's man

Since the outbreak of the Iraqi crisis, Richard Butler, the Australian diplomat heading the UN weapons inspections committee, has stood at the centre of the controversy.

Appreciated by the US for his tough stance and his assertions of Iraqi deceit, Mr Butler is hated in Baghdad where he is accused of exaggerating and fabricating claims about Iraq's ability to produce weapons of mass destruction.

If the agreement between the UN and Baghdad is accepted by Washington, Mr Butler will remain in the spotlight. His relationship with Iraqi authorities will be under close scrutiny by Kofi Annan, UN secretary-general, and an improvement in the relationship will be an essential element in preventing another crisis.

Iraq has perceived Mr Butler as America's man, charged with for ever delaying the lifting of UN sanctions imposed after the 1990 Iraqi invasion of Kuwait by claiming that Iraq was obstructing inspectors' work.

"It was essentially left to Butler to decide the fate of Iraq," complains an Iraqi official. Some of Mr Butler's inspectors were seen, in the words of a senior diplomat, as adventurers who had little respect for Iraq's sovereignty and were accused of spying for the US.

But criticism of Mr Butler over the last few months began to extend beyond Baghdad. His comments on the Iraqi crisis turned him into a pariah throughout the Arab world, and drew reprimand even from some UN Security Council members. Charged with the technical task of finding and destroying Iraq's weapons of mass destruction, Mr Butler's job became politicised and his remarks fuelled the crisis.

The 55-year-old diplomat who took over Unscom in May last year is a skilled disarmament negotiator and a former ambassador to the conference on disarmament in Geneva. He spent five years as Australia's envoy to the UN, including 1996, when Australia lost its bid for a non-permanent seat on the Security Council.

But perhaps what the world will remember most about Mr Butler is his quote in the New York Times last month, in which he claimed Iraq had enough biological material to "blow away Tel Aviv, or wherever." The remarks sent Israelis into a frenzied search for gas masks.

Iraqi President Saddam Hussein was warned not to hit Israel and talk of Israeli retaliation, possibly even with nuclear weapons, spread, leading to declarations by Boris Yeltsin, Russian president, that a US and UK-led military strike on Iraq could lead to a world war.

A few days earlier, Mr Butler had appeared before the conference of presidents of big American Jewish organisations to speak about Iraq.

Baghdad's claims of full compliance with UN resolutions, he told his audience, were "not remotely credible". In an Arab world at odds with Israel, the two incidents were enough to support Iraqi claims that Mr Butler was biased.

After the signing of the agreement with Tariq Aziz, Iraq's deputy prime minister, Mr Annan said yesterday that Mr Butler would remain in his job but he emphasised that Unscom would be enhanced, presumably through the addition of diplomats to teams inspecting presidential sites. Indirectly, Mr Annan sent an important message to Mr Butler and other inspectors when he said that in today's world "we need to be sensitive to concerns of others and understand other cultures".

Roula Khalaf

So who was bluffing?

Jacques Chirac of France lent a private jet to Kofi annan for the UN secretary general's mission to Baghdad, underlining France's determination to pursue a diplomatic solution even at the risk of upsetting Washington
President Boris Yeltsin of Russia claimed the deal vindicated Moscow's long-standing insistance on a peaceful settlement. It has also offered Russians welcome evidence that, for all its might, the US does not exercise unlimited global sway
Mr Kofi Annan, admitted that diplomacy was most effective when backed by firmness and force but Iraq insisted it was the good will he brought which played the instrumental role
President Bill Clinton of the US, was prepared to go to the brink to force Saddam to back down and must now decide whether the Iraqis have conceded enough to satisfy American national interest
Saddam Hussein of Iraq, deal has allowed him to save face and he can justify the claim that the crisis is enabling him to break out of diplomatic isolation

EUROPEAN UNION

Europe finds its common voice late in the day

The European Union has struggled to reach a common position in response to the crisis over United Nations weapons inspections in Iraq, but yesterday EU foreign ministers lined up behind the diplomatic solution achieved by Kofi Annan, UN secretary general.

Despite some important caveats about the precise nature of the agreement with President Saddam Hussein, the reaction among EU foreign ministers in Brussels was a cautious optimism that the deal would avert a US-led military strike against Iraq.

The Iraq crisis has highlighted the pitfalls which the 15 EU member states face as they seek to turn the 1992 Maastricht treaty's vision of a common foreign and security policy into reality.

Britain, which took the rotating EU presidency on January 1, 1998, has been attacked by some EU partners and the European parliament for pursuing an overly pro-American line and ignoring the need for "Europe" to speak with one voice.

Divisions loomed larger because France left no doubt that it favoured a diplomatic rather than a military solution. The rapturous reception which Tony Blair received during his inaugural prime ministerial visit to Washington accentuated Britain's pro-US tilt – but obscured subtle Anglo-American differences, particularly over the insistance of Robin Cook, UK foreign minister, on a new UN resolution before a military strike.

In fact, British and French diplomats agree that the Iraq crisis was never a suitable test-case for a common European foreign policy. Most of the diplomatic action took place at the UN in New York – not in Brussels.

Klaus Kinkel, German foreign minister, cautioned yesterday against raising unrealistic expectations about a common policy. A senior French official agreed: it was pointless to expect the four "neutral" countries of Austria, Finland, Ireland, and Sweden to take the same position as France or Britain.

In practice, the Iraq crisis was largely a contest between Britain and France to coax the rest of the EU into their respective camps.

By British reckoning, nine countries, including Belgium, which refused to supply bullets during the 1991 Gulf War, explicitly supported a military option. Finland, Austria and Ireland were hesitant. France, Luxembourg and Greece were more vocal in their opposition.

On the other hand, France could claim with some justification that it contributed to Mr Annan's diplomatic breakthrough and that the vast majority of EU countries favoured this approach. Indeed, British officials yesterday paid tribute to French, Russian and Turkish efforts to pressure Baghdad toward ending the stand-off.

Lionel Barber

ISRAELI ARSENAL

US accused of double standards on Israel

During the standoff between Iraq and the US, one of the repeated criticisms by some Arab countries of Washington's policy towards Baghdad was its double standards.

If, as President Hosni Mubarak of Egypt argued, the US was forcing Iraq to comply with United Nations resolutions, why did it not exert the slightest pressure on Israel over its flouting of UN resolutions.

Some Arab leaders also argued that if the US demanded that Iraq should open up its stocks of weapons of mass destruction to inspection, why did it not apply the same pressure on Israel. If such weapons contribute to instability in the region, should Israel not be called to book as well.

Israeli officials rejected such comparisons. On the one hand, they said, Israel, is a democracy. It would not threaten its neighbours as Iraq and Iran had done to its Arab neighbours, although Israel invaded Lebanon in March 1978 and again in June 1982.

On the other, while intelligence experts say Israel has between 80 and 200 unsupervised nuclear missiles this is not acknowledged by the government. Officials say Israel will not be the first to introduce nuclear weapons into the region, although they add in the same breath: "our nuclear deterrent has nothing got to do with proliferation."

But if Israel claims its nuclear deterrent and chemical stockpiles do not lead to proliferation, why have successive governments been reluctant to ratify the Chemical Weapons Convention or sign the Nuclear Proliferation Treaty, leading the way to international inspection?

Israel's answer is that it will take none of these steps until there is a comprehensive peace in the Middle East and until all other countries ratify the Chemical Weapons Convention. Given such a view, defence experts say prospects for reducing such weapons of mass destruction are a long way off given the virtual collapse of peace talks between Israel and the Palestinians.

"We are not willing to take any unilateral measures with regard to ratifiying the CWC," an official said. Israel signed the CWC but did not ratify it. Without ratification, Israel's chemical arsenals are not subject to any inspections.

This same argument is applied to Israel's nuclear weapons stockpiles processed at the Dimona nuclear reactor plant in the Negev. No Israeli official will confirm or deny the existence of its nuclear capability, invoking instead the "doctrine of ambiguity".

Arab countries say Israel's chemical and nuclear capability encourages proliferation and perpetuates instability in the region. So far, Iran and Iraq are the only two countries suspected of developing a nuclear capability, while all countries in the region, with the exception of Israel, have signed the NPT.

"Israel's nuclear arsenal, in itself, has probably not proved to be so destabilising as some Arab countries make out," said Peter Jones, a specialist in Middle East security and arms control at Sipri, the Stockholm-based peace and disarmament institute.

"There are tensions between Arab countries. Those who have weapons of mass destruction use Israel as an excuse. If Israel got rid of them, it would be wrong to believe there would be no such weapons left in the region. Essentially what is needed is a region free of nuclear weapons."

Judy Dempsey

THE ARAB VIEW

A sense of relief, but states still suspicious of Baghdad

Iraq's agreement to allow United Nations inspectors unlimited access to suspected weapons sites leaves Arab states which opposed US air strikes faced with uncertainty. This is because they wonder whether their pleading of the Iraqi case will give them leverage over a regime they still regard with deep suspicion.

Across the Middle East, the deal brokered by Kofi Annan, UN secretary-general, was met with relief yesterday. Arab opposition to military strikes stemmed from anxiety over likely fallout. The prospect of Iraq's disintegration and an explosion of region-wide popular protest against attacks on an Arab state, dominated the response of regional leaders.

"The political option has won out in solving the crisis, preventing the Middle East from plunging down to a dangerous cross-roads which could have led to a catastrophe and threatened the entire region and the interests of the superpowers," Esmat Abdel Meguid, secretary-general of the Arab League, said yesterday.

The Gulf states, still theoretically the most vulnerable to Iraq's arsenal, yesterday applauded Mr Annan's success in securing a diplomatic solution. Russia, France and the Arab League, as well as individual Arab states, had sought areas of compromise.

For Arab states, the five-week crisis has been a delicate balancing act between domestic political considerations and an assessment of Iraq's real importance to regional security.

Regional leaders have concluded that Iraq does not represent as great a threat to their security as the stalemate in the Arab-Israeli peace process, while the fall-out from air strikes on Iraq was unpredictable.

"[The agreement] has saved us from the horrendous results of military activity," Jawad Anani, Jordan's deputy prime minister, said yesterday. "We hope the agreement's implementation will end the tragedy which has lasted seven years, and economic sanctions against Iraq will be lifted in return for that."

While Mr Annan has made clear the agreement does not include any time limit on weapons inspections and sanctions lifting, regional states are likely to exploit the present momentum to bring Iraq's 1991 Gulf war surrender conditions to a close.

Few Arab leaders have close relations with President Saddam Hussein, but hope their opposition to air strikes will give them some influence with the regime and encourage it to play a less destabilising role, particularly over Kuwait.

"We are very happy this is the solution the Iraqi government reached with the representative of international legitimacy," said Amr Moussa, Egypt's foreign minister "Now this is done, there are no problems."

Unlike the peace dividend which emerged from the 1991 war, Mr Annan's diplomatic success has further dented the flagging credibility of the US as an honest broker in the eyes of its Arab allies.

This is likely to hamper revitalisation of the Arab-Israeli peace process, leaving Arab states faced with little improvement in what they view as the very important issue of regional security.

Mark Huband

Workers reject Caterpillar labour deal

By Nikki Tait in Chicago

Caterpillar, the large US equipment manufacturer, yesterday refused to say whether it would make a fresh attempt to secure a labour pact with its 12,500 unionised workers after a tentative agreement, recommended by leaders of the United Auto Workers union, was rejected by the rank-and-file on Sunday night.

But Wayne Zimmerman, a vice-president, conceded that the company would be "more comfortable with a signed labour agreement". "We've never refused to bargain... we'll get there one of these days," he said.

The proposed pact would have brought to an end one of the longest and most bitter labour struggles in the recent US past. Workers at Caterpillar, the world's largest maker of construction and mining equipment, have not had a contract since 1991, when the company decided to break the union's insistance on industry-wide agreements, claiming it needed more flexibility to compete successfully.

Since then, there have been two strikes, in 1991 and 1994. The second national stoppage lasted for 17 months, and became highly personal, splitting communities and families. The company functioned throughout, powering towards record profits, partly through the hiring of "temporary" replacement workers and about 4,000 UAW members who crossed picket-lines.

Workers' objections to the proposed six-year contract appeared to centre on issues stemming from those strikes. Under the deal, the UAW was required to drop the hundreds of unfair labour practice complaints which it brought against Caterpillar. Some early rulings in these cases had favoured the union.

In addition, while Caterpillar had agreed to rehire some dismissed union members, other cases were to be decided by arbitration. The union would also have readmitted Caterpillar workers who crossed the picket-lines.

The pact would have given workers a pay rise of 2-4 per cent, plus three lump-sum payments, each worth 3 per cent of salary, over the contract's life. It would also have boosted pension payments.

The deal would have covered Caterpillar workers at four plants in Illinois, and a smaller number of unionised employees in Pennsylvania, Colorado and Tennessee. The agreement, reached 10 days ago, had the backing of union leaders, although some admitted privately that they were not enthusiastic about its terms. In contrast to the decisive rejection of the contract in Peoria, Caterpillar's hometown, some other plants were more supportive – notably Aurora.

The UAW's Detroit headquarters put out a brief statement yesterday, noting the result but offering no further comment.

The initiative, however, is now thought to lie with the company: while analysts say that the lack of a labour contract makes little difference to the company from a financial standpoint, a settlement of the unfair labour practice claims would be helpful, and Mr Zimmerman admitted that Caterpillar would like to put the wrenching dispute behind it.

Meanwhile, the Federal Mediation and Conciliation Service, which played a key role in encouraging discussions between the company and the union, said the initiative would need to come from the players themselves. "It isn't up to us at this point," it said.

Canadian budget prepares ground for 'fiscal dividend'

Paul Martin, Canada's finance minister, today is expected to announce the country's first balanced budget in almost 30 years, a watershed event that will enable the government to declare victory in its war on the federal deficit.

It will mark a dramatic turn of events from 1994, when the Canadian deficit peaked at C$42bn (US$30bn), or 5.9 per cent of gross domestic product.

Observers widely expect the fiscal 1998-99 budget will again feature prudent fiscal policies, conservative economic forecasts and a large contingency fund, which have over the past several years enabled the government to achieve better results than forecast.

Canada's C$144bn budget for the fiscal period ending March 31 estimated a C$8.9bn deficit, but the government was running a C$1.4bn surplus for the eight months ending in November.

The same prudent policies will now enable Mr Martin to achieve what many economists are calling "surpluses by stealth".

While economists believe Ottawa could go as far as budgeting a surplus, it is unlikely to do so, because of concern that it would be perceived as insensitive to the pain already caused by four years of belt-tightening.

This year's budget will also set the tone for the government's finances during the remaining years of the government of Jean Chrétien, the prime minister.

The key issue in the minds of all Canadians is how Ottawa will spend the so-called "fiscal dividend," the additional money available as a result of a balanced budget and rising revenues.

The initial dividend will be small, but economists are forecasting it could grow to a cumulative C$30bn over the next four or five years.

Mr Chrétien's government provided a broad hint about its priorities when it announced that half of future surpluses over the course of its second four-year mandate would go towards new spending initiatives and the remainder would go to cover tax cuts and reduce Canada's debt of about C$600bn.

The half-and-half pledge, however, could be tinkered with, depending on how Mr Martin defines items such as child tax benefits.

Debt reduction is clearly a priority for Mr Martin and opinion polls suggest about 40 per cent of Canadians are willing to forgo tax cuts and new spending initiatives in order to tackle the debt, which at present stands at just over 70 per cent of GDP.

Private economists have argued Canada will put its future economic well-being at risk if it does not move now to reduce the debt.

Ruth Getter, chief economist at Toronto Dominion Bank Financial Group, says that Ottawa must prepare to meet the challenge of future spending increases on health care and retirement benefits as the country's population ages.

The government has promised to put the debt-to-GDP ratio on a continuing downward track, but specific targets are not expected today.

Another strong lobby has been those advocating a general tax cut in order to reduce the tax gap between Canada and the US and avoid having a negative impact on competitiveness, job creation and the Canadian dollar.

Tax cuts are a strong plank of the platform of the conservative Reform party, which forms the official opposition in parliament, but Mr Martin is expected today to unveil only minor tax breaks aimed at low-income earners.

Ottawa is seen to increase spending over the next four years at the annual rate of inflation, currently at about 1 per cent.

To that end, the government has already said it would forgo the final cut to health and social transfer payments to the provinces. Ottawa could also increase its allocation for the child tax benefit.

The most notable spending initiatives this year, however, will reflect what Mr Martin recently referred to as the relationship between jobs and education.

The centrepiece will be the creation of a controversial C$2.5bn-C$3bn university scholarship fund, a personal project of Mr Chrétien.

Provincial politicians, however, have argued that as education falls under their jurisdiction, the allocated amount should be funnelled into the provinces' coffers and put to use as the local leaders see fit.

But Mr Chrétien is not likely to back down.

After four years of asking Canadians to make sacrifices in the national interest, the prime minister clearly covets the opportunity to dole out a little victory cheer.

Scott Morrison

A carnival float makes its way up the main avenue of Rio de Janeiro's Sambadrome. Rio's carnival began on Sunday as 4,000 drummers and dancers from the first of 14 samba schools entered the Sambadrome Picture: Reuters

NEWS DIGEST

Nicaragua seeks $1.5bn in aid

Nicaragua hopes to secure assistance of up to $1.5bn from a meeting in April of a consultative group of donor countries, to help bear the brunt of a freeze on public spending agreed with the International Monetary Fund.

Arnoldo Alemán, the president of Nicaragua, at the same time has highlighted agriculture and tourism as the keys to economic development, saying that the country could regain its reputation as "the granary of central America".

Nicaragua has signed a letter of intent with the IMF for an enhanced structural adjustment facility (Esaf) up to 2000, hoping to qualify then for relief from part of its crippling $6bn foreign debt.

Donor countries will be asked to provide $400m-$500m a year over the life of the Esaf to spend on health and education.

"I believe the consultative group will back the project that we are going to put forward," said Mr Alemán.

"I think we will be able to get support so that the austerity of public spending will be alleviated somewhat. It is not right that 40-50 per cent of our exports goes to pay the interest on our debt." *James Wilson, Panama City*

■ UN WARNING

Collect tax, Guatemala told

Fulfilment of the peace agreements that ended Guatemala's long civil war will be in jeopardy if the government fails to collect more taxes to invest in public services, the United Nations has warned.

In a report on the first year of peace, the UN's verification mission in Guatemala, Minugua, also says support for the peace process is being affected by worries over rising crime.

However, the report highlights the successful re-insertion into society of former members of the URNG guerrilla movement, which signed agreements with the government in December 1996 to end 36 years of conflict, and the URNG's transition to a political party.

Guatemala's tax collection rate – of around 9 per cent of gross domestic product in 1997 – is the lowest in Latin America.

The tax take exceeded targets in 1997, but the UN said measures taken so far were not enough to fulfil the pledge to reach the target set in the peace agreements of around 12 per cent of GDP in 2000. *James Wilson*

■ GRAPHITE ELECTRODES

$29m anti-trust fine levied

The US Justice Department has fined the US subsidiary of a Japanese company $29m for anti-competitive practices in the graphite electrode industry, the fourth largest criminal fine levied for anti-trust violations.

Anti-trust officials said Showa Denko Carbon, a South Carolina-based subsidiary of Showa Financing, had fixed prices and allocated market share for graphite electrodes in the US and other countries between 1993 and 1997.

Showa Denko Carbon officials have agreed to co-operate in the investigation, and will shortly plead guilty to the charges at a formal arraignment before paying the fine.

Janet Reno, US attorney-general, said the fine was only the first step in dismantling an international cartel that had distorted the prices for electrodes – large carbon columns vital for steel makers. *Mark Suzman, Washington*

BA seeks new way to fund aircraft purchase

By Michael Skapinker, Aerospace Correspondent

British Airways yesterday told Boeing and Airbus Industrie, the aircraft manufacturers, to come up with innovative ways of funding aircraft purchases, to allow it to reduce substantially the capital assets it owns.

Robert Ayling, BA's chief executive, said he had given Boeing and Airbus until March 16 to make tenders for BA's long-delayed £2bn programme to re-equip its European short-haul fleet with up to 100 aircraft.

Airlines had become "much too dependent on assets," Mr Ayling said. BA was looking for other companies to assume ownership of aircraft.

"Airlines are operating companies. Our strength is in our network and in our ability to manage and distribute [aircraft] capacity. If we can find a way of not having some of the risk of ownership, that would be an advantage."

BA's accounts show 219 aircraft on its balance sheet on March 31, 1997 and a further 89 operated under off-balance sheet leases.

BA is looking initially for up to 30 aircraft for its UK regional fleet to enable it to comply with new noise regulations, which take effect in 2002.

It expects to follow this by ordering 70 aircraft for use in the UK and by Air Liberté and Deutsche BA, its French and German subsidiaries. The contest pits Boeing's 737s against the Airbus A320 family.

Steve Hill, Boeing's commercial aircraft sales director, said devising an innovative form of financing would be "the crux to winning this competition". BA was looking for alternatives to traditional aircraft acquisition methods, such as outright purchase, leasing or sale-and-leaseback.

He would not reveal what Boeing had in mind but said: "You can almost let your imagination go".

Airbus set up its own finance company, based in Ireland, in 1994. But the consortium said the company was used in only 10 per cent of its aircraft sales. BA has never bought an Airbus aircraft, but it does operate 10 A320s which it acquired when it took over British Caledonian in 1987.

Boeing stepped up the pressure on Airbus yesterday by saying it had 90 UK suppliers, from which it bought goods and services worth $1bn last year, supporting 31,000 British jobs.

Mr Ayling postponed plans to buy new short-haul aircraft in 1996, saying he wanted to reduce the cost of BA's regional operation first. Yesterday, he said BA's trade unions had now agreed to working practices which made the short-haul business viable.

Shopping in China on the shady side of the street

Business laws are under scrutiny as the huge potential and competition in the Chinese market tempt some to bend the rules

A large Taiwanese supermarket operating in China has forced an investigation into the sale of sensitive customer information by an employee to its chief competitor.

The case demonstrates the fierce competition in China's retail sector and the sometimes scant regard for professional probity in China's emerging market economy.

Trustmart, the south China subsidiary of Taiwan-based Grace T.H.W. group, says a former Trustmart employee has admitted that he sold computer software and files to Makro, the Dutch supermarket operator, through an intermediary for Yn100,000. The employee was taken into police custody in late November and an investigation is under way.

Winston Wang, chairman of Grace, says he is preparing to sue Makro over the sale, which he claims has damaged his business.

Mr Wang says that after his huge Trustmart outlet opened in Guangzhou in September last year, business grew extremely fast for the first month, as 130,000 customers joined store's membership system.

But he says sales "plunged dramatically" one month after the store opened. "We launched an internal investigation and caught the local employee red-handed and went to the police," says Mr Wang.

Mr Wang, son of Wang Yung-ching, the Taiwanese petrochemical king and founder of Formosa Plastics, has about US$500m in China investments through the Grace group. Trustmart, which opened a hypermarket in Chengdu in November, plans to open several outlets a year across China.

Vincent Fan, head of Asian private equity investments at Citibank, which has a 10 per cent equity interest in Trustmart, says the hypermarket business in China has tremendous potential but is very competitive.

He adds that computer systems are key to success. "In addition to location, design, facilities and service, inventory management is crucial," he says. "You need to know which stocks are moving, how quickly, as well as the spending patterns and behaviour of your customers."

Henk van Houten, manager of Makro in China, confirms that commercially-sensitive information from Trustmart – called Haoyouduo in Chinese – was sold to employees of Makro.

Mr van Houten says Makro, which has stores in Guangzhou, Shantou and Beijing, was unhappy about what had happened in Guangdong. He says: "There has been a problem with this issue and people of our company were involved in a way that was not correct."

Mr van Houten says that a former general manager in Guangdong and a number of other Makro employees have since left the company.

But Mr van Houten denies Makro ever used any of the information. He says Makro turned over all information to investigating authorities as soon as the case came to light. "It did not get to the stage that the organisation used the information."

Mr van Houten says he does not know whether Makro will face legal action from Trustmart. "We are waiting for the authorities to finalise their investigations," he says. "It has been very difficult to find out exactly what has happened."

But Mr Wang says Makro was able to use the information to undercut Trustmart's prices. He adds: "Our business has started to pick up again but I'm afraid long-term damage has been done to our company."

Mr Wang says he is concerned that the case might be suppressed. He is also worried that China's intellectual property regulations are unclear in a business culture in which the rule of law is still in its infancy.

Other foreign companies in China have witnessed the shadier practices of business practice in mainland China. Asimco, a US car-parts supplier which runs a number of joint ventures across mainland China, has been through the courts in pursuit of former employees alleged to have defrauded the company. Jack Perkowski, chairman of Asimco, said he was "very positive" about China, but added: "investors must be able to rely on company law and China's legal system to protect their interests".

Kimberly-Clark, the Florida-based paper products group, has had problems with a joint venture in Beijing. It is suing its partner for allegedly stealing and diverting manufacturing equipment and then setting up a copycat factory producing identical products down the road from the intended joint venture site.

Laura Tyson and James Harding

Asian crisis will hit US farm exports

By Nancy Dunne in Washington

US farm exports will decline by $2.1bn this year as the Asian financial crisis curbs the demand for imported food, the Agriculture Department announced yesterday.

But August Schumacher, agriculture under-secretary, said that 1998 would be the fourth straight year that farm exports topped $54bn, despite reduced Asian demand, record crops in the Southern Hemisphere and a comparatively strong dollar.

Mr Schumacher said that the liberalisation of world trade meant the effects of the Asia crisis were manageable. "What has happened is that trade reforms are kicking in, incomes continue to grow in developing countries and irreversible changes are taking place in marketing and distribution channels," he said.

"These changes will continue to lead to a sustained growth in US agricultural exports by making it difficult for countries to turn off the spigot for consumers."

The east Asian market accounts for 40 per cent of US farm exports. US officials have divided the Asian market into three tiers.

The first is occupied by Taiwan, Japan, China and Singapore, which account for 75 per cent of US exports to Asia. Stable demand is expected in these countries, although Mr Schumacher said there would be "some softness in higher value consumer products."

Exports to the second tier countries – Malaysia, Thailand, the Philippines and South Korea – are expected to slow. The agriculture department has targeted the four for $2.1m in export credit guarantees in an attempt to prop up demand.

Indonesia, the lone third tier country, is expected to be more seriously affected in the short term than the countries on the first and second tiers.

Farm exports in the Western hemisphere are projected to reach a high in 1998, totaling $10.8bn, 8 per cent above last year's record level.

Much of this was due to changes in food distribution and marketing channels, said Mr Schumacher. Just a few years ago there were no wholesale clubs, chains or discounters in Latin America or Asia. "Today there are supermarkets in São Paulo, Brazil, with 75 checkout counters and clerks on roller blades doing price checks," he said. "Wal-Marts, Gold Clubs and other discounters are springing up in Mexico, Hong Kong, China and elsewhere."

NEWS DIGEST

Taiwan pressed on spirit duty

Taiwan will today face European Union pressure for reform of its rules on taxation of spirits and compact cars as talks begin over its admission to the World Trade Organisation.

After signing a sweeping trade accord with the US last week, Taiwan needs to reach agreements with the EU and Switzerland before it can join the WTO. Taiwanese officials hope the island will be able to join the WTO by the end of this year, following the completion of multilateral talks and the drafting of protocol for entry.

Although there are no significant points of contention between Taiwan and Switzerland, the EU wants Taiwan to reform its liquor taxation system and reduce tariffs for small car imports.

Taiwan taxes French brandies at a flat rate of T$1,000 per litre, compared with T$500 per litre for brandies produced elsewhere. Scotch and Irish whiskies are taxed at a rate of T$440 per litre, compared with T$198 per litre for other whiskies.

The unequal taxes have caused sales of Scotch whisky – the UK's second biggest export to Taiwan – to fall sharply. Japanese whisky has recently overtaken Scotch as the best-selling whisky in Taiwan.

On small cars, the EU wants Taiwan to halve import tariffs from 30 per cent to 15 per cent. However, it is likely that Taiwan will look to repeat the concession it made in the accord with the US by agreeing to cut tariffs to 20 per cent. *Laura Tyson, Taipei*

■ HAZARDOUS WASTE

Talks start on export ban

Representatives of more than 100 governments and the European Commission yesterday began talks in Kuching, Malaysia, aimed at securing a worldwide export ban on hazardous waste. The delegates will discuss banning the export of waste which contains arsenic, lead, mercury and asbestos.

The talks follow a 1995 agreement to ban hazardous waste exports in order to protect the interests of developing countries. Michael Williams, of the United Nations Environment Programme, said compromise would be sought on other wastes such as scrap metal, solid plastics, paper and textiles to make the ban acceptable to all 117 parties. *Gautam Malkani, London*

■ SLOVAKIAN CAR INDUSTRY

Volkswagen to triple output

Volkswagen, Europe's largest carmaker, said yesterday it planned to triple production this year at its Slovakian plant to 120,000 cars. This a big increase from its plan last summer to increase production to 60,000 cars from 40,885 in 1997. VW is the leading foreign investor in Slovakia, which has been shunned because of questions over the respect for democracy shown by Vladimir Meciar, prime minister.

VW has moved its entire production of the four-wheel drive Golf Syncro family hatchbacks and estate cars from Wolfsburg, Germany, to Bratislava, where the production costs are much cheaper.

VW invested DM185m ($103.9m) between 1991 and 1996 and said it boosted this by DM110.6m in 1997. Most of the cars produced at the plant are exported. *Robert Anderson*

European Union scientists appear to endorse British ban on sale of T-bone steak

Brussels may toughen rules on BSE

By Michael Smith in Brussels and Alison Maitland in London

European Union scientists yesterday appeared to back a UK ban on the sale of T-bone steak in a move which could herald a toughening of Brussels rules to prevent the spread of BSE, or mad cow disease.

After a two-day meeting they named dorsal root ganglia – nerve tissue connected to the spinal column whose infectivity was the main reason for the UK beef-on-the-bone ban – as one of four main infective areas of cattle with BSE.

The UK ban, introduced in December, has provoked protests from farmers, butchers and opposition politicians. They say the measure is disproportionate to the estimated one in a billion risk of dying from eating beef on the bone.

A Ministry of Agriculture spokesman said: "It's gratifying to have our position endorsed."

The European Commission, the EU's executive, will consider a report of the high-ranking scientific steering committee tomorrow as it decides its next moves in the fight against BSE.

One possibility is that it will seek a further three-month delay in the implementation of a ban on "specified risk material" – the parts including the brain and spinal column considered the most likely carriers of BSE – as it attempts to strengthen its policies.

The commission is seeking changes to a risk material ban already agreed by member states but is facing opposition by eight EU countries including Germany which say they have had no indigenous cases of BSE.

Commission officials believe that one way round the opposition would be to grant exemptions to BSE-free countries.

The amended specified risk material ban could force the member states with a history of BSE to implement tougher regulations including a ban on the sale of meat attached to the vertebral column of cattle, sheep and goats.

Commission officials were stressing yesterday that any decision would have to be made by politicians rather than scientists.

The risk material ban was initially intended for implementation in January but was delayed in part because of protests from the US which said it would halt trade in tallow and gelatine. Both are cattle products used in cosmetics and pharmaceutical manufacture.

The scientific steering committee yesterday said that tallow derivatives could be regarded as safe provided they were correctly treated. Its advice on gelatine was less clear cut but some officials thought it may mean a redrafting of earlier proposals.

In the UK the EU scientists' apparent backing for a ban on T-bone steaks was welcomed by the Meat and Livestock Commission, the industry promotional body.

However, Michael Jack, opposition Conservative agriculture spokesman, insisted consumers did not want to be "nannied". He said the public had "quite clearly rejected this particular measure".

UK NEWS DIGEST

$83.5m tax 'will subsidise dome'

The government admitted last night that up to £50m ($83.5m) of tax revenue will be used to subsidise the controversial £750m millennium dome in Greenwich, south-east London, in spite of repeated assurances that none of the money will come from taxpayers. Officials conceded that most of the £150m to be provided by private sector sponsorship will be offset against tax, reducing government revenue by almost £50m.

British Telecommunications, which has pledged £12m, confirmed that it planned to treat the payment as an ordinary business expense and so would expect to get nearly £4m back from the taxman.

Tony Blair, the prime minister, will today insist that "not a penny of taxpayers' money" will be used for the project as he unveils the planned contents for the dome. But his office admitted that funds would come indirectly from the Exchequer.

Mr Blair will today announce several new sponsors for the dome, which are expected to take the government about halfway to its private sector funding target. The remainder of the costs will be met by £399m of National Lottery money and income from ticket sales and licensing.

The other sponsors so far disclosed include British Airways, BAA, the Corporation of London, British Aerospace and Swatch. A large number of companies have been approached, including the UK subsidiaries of leading multinationals. Sir Colin Marshall, chairman of BA and president of the Confederation of British Industry, the principal UK employers' organisation, used last month's prime ministerial trip to Tokyo to lobby Japanese companies, including Toyota. *David Wighton, London*

■ INTERNET

Car trade 'faces revolution'

The UK motor trade will faces a "revolution" in car-buying behaviour within the next two years, with more than one in five new and used cars being bought using the internet, according to KPMG motor industry analysts.

Traditional car dealers must get to grips with the technology immediately or lose business to rivals already preparing to team up with internet-based operations, said James Rodger, KPMG automotive specialist

His warning follows a decision by Auto-by-Tel, which claims to be the biggest internet sales operations in North America, to set up operations in the UK before the end of this year. Auto-by-Tel's main north American rival, Autoweb, also intends to break into west European markets this year, although it has yet to confirm industry speculation that its own first target will also be the UK.

● Toyota's Derbyshire-built Carina E car range has been rated Germany's most reliable car by the country's TUV motoring organisation. This contrasts sharply with findings on breakdowns by the UK's Lex leasing group. Toyota has started an inquiry into the UK figures after saying it was "mystified" by findings from the 1,400 Carinas on Lex's fleet. *John Griffiths, London*

■ INWARD INVESTMENT

Welsh agency considers cost cuts

The Welsh Development Agency is considering making 90 staff redundant and closing overseas offices as part of a £3m ($5m) cost-cutting drive, it was revealed yesterday.

Brian Willott, chief executive, said the financial cuts were ordered by the Welsh Office as the agency merges into a so-called "economic powerhouse" with its counterpart in mid-Wales, the development board for rural Wales, and the land authority for Wales.

After staff costs, the main area being targeted for savings is expected to be the 11 overseas offices, where the agency is believed to be considering using the Invest in Britain Bureaux. This is seen as part of the Department of Trade and Industry's drive to establish a concordat on inward investment between the English regions, for which IBB acts, and Wales and Scotland.

Concern about the possible closure of overseas offices and the potential damage to inward investment is one of several bones of contention in the merger of the three agencies, insiders claim. *Juliette Jowit, Cardiff*

■ SOCCER

Scots club plans move to Ireland

An obscure, homeless Glasgow football club from the Scottish second division that plays at a stadium called Boghead and which attracts an average home crowd of 286 yesterday announced plans to relocate to another country.

Clydebank said it would move to Dublin in the Irish Republic. It aims to start playing next season's Scottish league games at the 12,000-seater Royal Dublin Society Arena. However, Wimbledon football club of the English Premier League also harbours plans to move to Dublin, the only big European city without a major professional football team of its own. Like Wimbledon, Clydebank has to overcome huge hurdles to achieve its ambition: the club requires the approval of both the Scottish and Irish football associations, and neither appears willing to back the move. *Patrick Harverson, London*

■ $10m PLANT

German company in jobs boost

MSC Vetriebs, a German distributor of memory modules for computers, is to establish a £6m ($10m) assembly plant at Livingston, Scotland, creating 114 jobs over the next five years. The company chose Scotland over two other European sites. *Stefan Wagstyl*

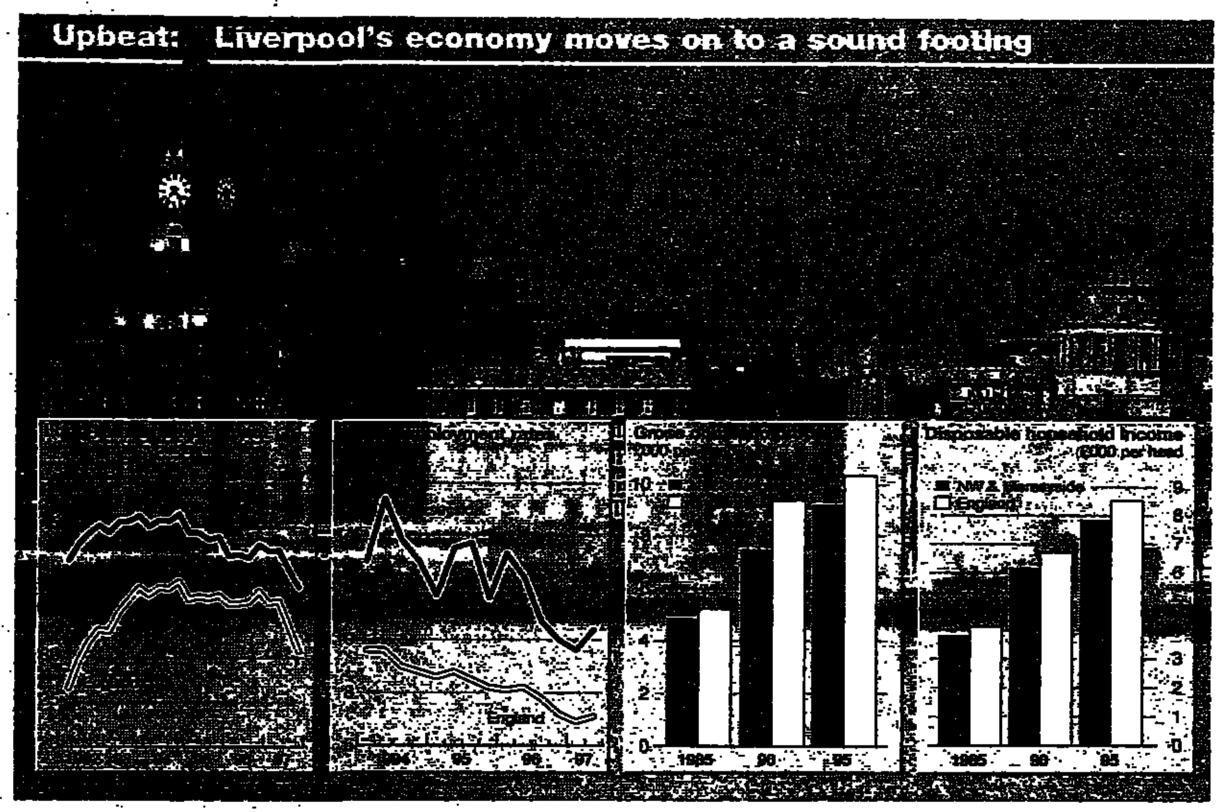
Confident beat to Liverpool's heart

Civic leaders say European Union aid is bearing fruit after years of decline

Welcome to Knowsley, says the sign on the M57 – the busy motorway near the north-west city of Liverpool. Home to Halewood. Home to the 'baby Jag', the new model Jaguar.

The decision by Ford to continue making cars on Merseyside, the urban area which includes Liverpool, is important not only for the 3,000 jobs it has saved at the Halewood plant. Backed by £40m ($66.8m) of government aid, it is also a symbol of a new confidence in the region, say city leaders, after years of industrial decline.

Merseyside is one of three regions in the UK to qualify for the European Union's first phase of Objective 1 funding, where grants are made to regions where gross domestic product per head is no more than 75 per cent of the EU average. The six-year regeneration programme runs up to 1999, and is designed to prime the pump of the local economy. Total investment is planned at £1.6bn, comprising £630m from the EU, £630m in matched government aid, and £340m from the private sector.



The region has invested in training, infrastructure and business expansion. There is no guarantee it will qualify in the second phase of funding to run from 2000, but local officials argue the region must win the chance to build on achievements so far.

The project, however, has drawn criticism. Claims were made in the early years that Merseyside was training more hairdressers than information technology engineers. Businesses said they could not get direct help for expansion. Economists argued disbursement was slow and spending had to be more focused.

"There is no doubt it got off to a slow start," says Terry Atherton, corporate director at the National Westminster Bank on Merseyside, and a member of the project's monitoring committee. "I couldn't see much activity or money going into the private sector, which is the engine room for economic growth."

So far, only a third of the project's £1.6bn has been spent. Officials on Merseyside say a further third of the money is committed to projects, and spending will peak in the final two years. The groundwork has been laid, they say.

"It's fair to say opportunities were missed in the early years," says Neil Rami, marketing director at Mersey Partnership, the public-private regeneration body. "It was part of a learning curve. Other regions have had the same problems."

Chris Farrow, chief executive of the Merseyside Development Corporation, which is being wound up next month, says the process has been hampered by "a bureaucratic rigour" in Brussels. He argues that while there is a need to ensure the money is spent properly, the EU has to be more flexible.

About 7,000 net jobs have been gained, says Mr Rami. But he insists that Objective 1 "is more than a number-counting exercise". It has achieved three main objectives: creating "the right kind of infrastructure", improving competitiveness and building confidence. Thirty sites are being developed, with a focus on areas of severe unemployment.

A priority in the battle to win investment has been the creation of a 100-acre industrial site at Speke-Garston, south of Liverpool city centre. The £30m project is being funded by the EU, English Partnerships and Liverpool City Council. In Knowsley, an £85m industrial park is being developed which has drawn 25 investments. In the city centre, Liverpool's largest construction project is under way with the £95m development of Queen's Square, including a 146-bedroom hotel, due to open this summer.

The Objective 1 project has sought to address concerns about a lack of business support with the creation of the Merseyside Special Investment Fund. The £25m fund provides loans, mezzanine funding and venture capital.

Some critics have been won over by signs that the scheme is working for Merseyside. Peter Kilfoyle, public services minister, and MP for Walton, argues the project still lacks dynamism and is "top heavy" in public sector officials. "There needs to be fewer people and broader representation," he says. But he agrees the "building blocks are in place" and a second phase of EU funding is needed to finish the job.

Sheila Jones

Car bomb attacks disrupt talks on N Ireland

By John Murray Brown in Dublin

The Northern Ireland peace talks were dealt a double blow yesterday, after the centre of the loyalist, anti-republican town of Portadown in the region was devastated by a large car bomb just hours after Irish police defused a loyalist device in the Republic, in county Louth.

Portadown is a stronghold of the breakaway Loyalist Volunteer Force, which is opposing the peace process and which claimed responsibility for the county Louth bomb.

As Bertie Ahern, the Irish prime minister, prepared to meet Gerry Adams, leader of Sinn Féin, the political wing of the Irish republican Army, today, pro-British unionists blamed the IRA for the Portadown bomb. David Trimble, the Ulster Unionist leader, called for "an appropriate security response".

He said: "I have no doubt that this is the work of the IRA. Sinn Féin has been exposed inside and outside the process. There can be no question now of their returning to the talks. I will make that clear to the prime minister [Tony Blair] when I meet him over the course of this week."

After the weekend bomb attack in Moira, a loyalist town in County Down, Mr Trimble claimed the IRA was targeting the constituencies of key unionist politicians after Sinn Féin was expelled from the talks last week. Its expulsion followed the linking by Northern Ireland police of the IRA with two Belfast murders.

However, Mo Mowlam, the UK government's chief minister for Northern Ireland, said it was too early to say who was responsible. In an apparent reference to extremist republicans, she said it was "a desperate bid by ruthless people to destabilise Northern Ireland and undermine confidence in the peace process".

Mr Ahern and Mr Blair are to meet on Thursday. Mr Ahern said "if everybody concentrated for about two weeks", an outline agreement could be in place. But he conceded that "as every week goes it gets more difficult" to meet the May deadline, set by Mr Blair.

News of yesterday's explosion disrupted the resumption of the talks in Stormont Castle in Belfast, Northern Ireland's principal city.

Watchdog urges tough rules to check anti-competitive behaviour after visit to Microsoft

Call for curbs on communications sector

By Cathy Newman

Don Cruickshank, the outgoing director-general of Oftel, the telecommunications watchdog, has called for the urgent introduction of new communications regulation, following a visit to Microsoft, the world's biggest software company.

Mr Cruickshank, who is to leave Oftel at the end of next month, visited Bill Gates's software company last week to talk about the future of the communications industry.

He said that anti-competitive behaviour from companies such as Microsoft and British Sky Broadcasting should be checked by tough new regulation. "After my investigations of the last week, I'm more and more convinced we need urgent changes to the regulatory regime," Mr Cruickshank said.

He spent an hour with Bill Gates, and toured other companies including Netscape, which did not exist when he took up his position.

He added: "There are those organisations which want to control the gateways in an economic sense, and those who might seek to control the information that passes over these gateways."

Microsoft has been embroiled in a dispute with the US Justice Department about its failure to separate its internet browser from its Windows operating system.

Separately, Sun Microsystems has accused Microsoft of trying to alter its Java programming language so that it worked better in the Windows operating system.

The present regulatory regime would not enable Oftel to "deal satisfactorily" with similar issues, Mr Cruickshank said. New regulation should be introduced as quickly as possible, or within two years, he added.

Oftel will publicise its views on the future of regulation in a submission to a committee of MPs in the next few weeks. However, the watchdog is amending its paper following the visit to Microsoft. "We went over there with the draft of what we were going to see in the future, and we tested it against the future," Mr Cruickshank said.

The MPs, the select committee for Culture, Media and Sport, said last July they would conduct an inquiry into the communications industry, looking at the future of regulation "in the light of convergence between broadcasting, telecommunications and computer technologies".

Mr Cruickshank, whose successor has not been identified, said new communications regulation should lead to "fewer rules, but more robustly applied". However, he would not give any indication whether Oftel would support a single regulator, incorporating both Oftel and the Independent Television Commission, the television watchdog.

Oftel's comments come after a dispute between British Digital Broadcasting and British Sky Broadcasting, the pay-TV companies, over the technology used in set-top boxes, needed to unscramble digital television signals.

British Sky Broadcasting, the pay-TV company, is in discussions with US film producers about transmitting films exclusively on satellite before they are shown in cinemas, Cathy Newman writes.

The project, to be called Sky Exclusives, would allow subscribers to view films before they are released in the cinema or on video.

Mark Booth, BSkyB's chief executive, signalled that he would take a different approach to programming at the time he took over from Sam Chisholm at the end of last year. The development of Sky Exclusives is one of the first examples of the new management's changed attitudes towards programming.

BSkyB is close to signing deals with several independent US film producers. The first film shown is likely to be *Phoenix*, directed by the young British director, Danny Cannon, who was responsible for *The Young Americans* and *Judge Dredd*. Films being discussed with other producers include one directed by John Schlesinger, associated with *Midnight Cowboy*, among others. Another, a romantic comedy starring Janeane Garofalo and Dennis Leary, is also on the agenda.

BSkyB plans to show one exclusive film a month, and is likely to launch the venture within three months or to coincide with the start of the company's 200-channel digital service in June. The films will be shown to customers that subscribe to BSkyB's premium movie channels.

The satellite broadcaster is also pressing on with a Sky Originals service, which will see the production of made-for-television films with budgets of up to £5m ($8.35m).

BSkyB is to co-produce programming which may be shown in cinemas before being broadcast exclusively on satellite television.

Vote helps break mobile phone deadlock

By Alan Cane

A UK government decision to back one of two competing standards for the next generation of mobile phones has helped break a deadlock that was threatening to handicap Europe's cellular mobile industry.

Barbara Roche, UK industry minister, who will chair her first European telecommunications council meeting later this week, said the decision to back the standard had been hard: "It was a tough call for us. Normally governments do not vote on this kind of thing but I instructed our officials to use their vote and, because of that, we managed a breakthrough."

Officials close to the deal said the UK's vote had been among the factors that swung the decision in the direction of the standard WB-CDMA, championed by Ericsson of Sweden and Nokia of Finland, Europe's leading mobile systems manufacturers.

The importance of a single, Europe-wide standard for third generation mobile phones is underlined by the success of GSM, the de facto world standard for second generation phones. Third generation capabilities will include internet access and movie quality video.

European determination to establish GSM as the standard gave manufacturers the confidence to develop advanced systems, while customers were able to move around Europe using a single phone. GSM has since become the standard in many countries outside Europe.

Attempts to repeat the success of GSM phones fell foul of a disagreement over third generation technical standards. TD-CDMA, sponsored by Siemens of Germany, Sony of Japan and Motorola of the US, offered a low cost upgrade while WB-CDMA would require extensive revision of Europe's mobile networks. WB-CDMA, however, has greater potential for development. It has also been chosen by the largest Japanese operator, NTT DoCoMo, and seems certain to become the Asian standard.

The situation seemed deadlocked before the December 1997 meeting of the European standards body, Etsi. Officials say the UK vote swung the mood of the meeting towards WB-CDMA, opening the way for a compromise solution that was agreed last month.

The US is following a different standard.

Compromise expected on Euro election format

By Liam Halligan, Political Correspondent

The government is understood to have accepted a "modest compromise" on the "closed list" voting mechanism proposed for European parliament elections. This would allow voters to select individual candidates as well as parties.

Jack Straw, the home secretary, today opens the committee stage, in the House of Commons, of the European elections bill, under which seats to the Strasbourg parliament are allocated, in proportion to votes cast, from regional candidate lists drawn up by each party.

With the opposition Conservative party and Liberal Democrat party rejecting such lists as "undemocratic", government officials have indicated that ministers are moving towards a compromise, namely the adoption, in time for elections in 1999, of a Belgium-type system granting voters the choice between individual candidates and parties.

Mr Straw, a staunch opponent of PR, has said he wants to listen to this week's two-day committee stage before reaching a decision. But the government, sensitive to arguments that voter-power is being undermined, is expected to amend the bill.

The ruling Labour party has indicated that its candidate lists will be centrally controlled. This has led to protests from left-wing MEPs, who fear the party could take steps to bar them from Strasbourg.

The Conservatives, while favouring existing first-past-the-post arrangements for elections to the Strasbourg parliament, have said their candidate rankings will be determined by ballots of party members.

"If we must have PR, we want it to be as open and elector-friendly as possible," said Edward McMillan-Scott, Conservative leader in the European parliament.

Senior Liberal Democrats, who discussed "closed lists" with ministers recently, are upbeat about chances of compromise. "My guess is that Jack Straw may have to move a bit on this, despite opposition from the party machine," said one.

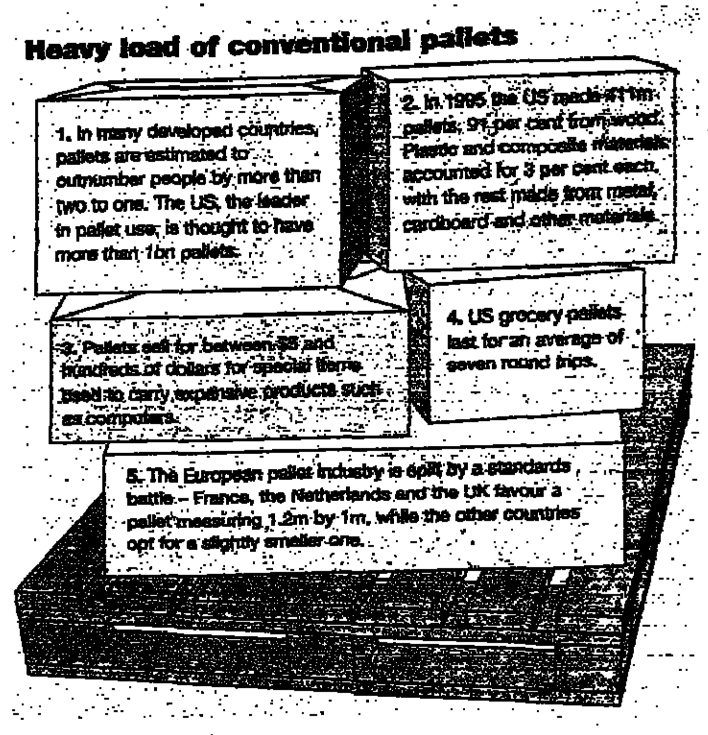
Charter 88, the constitutional campaign group, has also been lobbying the government to move away from closed lists.

In a recent survey, almost two-thirds of those polled preferred choosing between individuals rather than parties, Charter 88 said yesterday.

TECHNOLOGY

Peter Marsh on a longer-lasting product that reuses discarded wood and plastic

Pallets made palatable



Few technical innovations are designed to cheer both the environmental lobby and the hard-headed managers of industrial transport fleets. But that could be the case with a system for turning discarded plastic and wood into industrial pallets that has been devised by Dura Products, an Ontario-based technology company.

Dura has spent $8m (£4.7m) developing a novel process for feeding plastic and cellulose waste into an extrusion machine and producing a composite material that can be made into the pallets that are the unsung workhorses of the commercial world.

The company has announced plans for a series of plants making its "composite" pallets in North America, and is looking for its first sites in Europe. "We feel we are filling a void in the pallet market," says Keith Carrigan, Dura's chief executive.

Behind the innovation is the widespread interest worldwide in coming up with replacements for the ubiquitous wooden pallets seen in virtually every corner of industry but which are notoriously environmentally "unfriendly", with most ending up in rubbish dumps after only a few trips.

Dura's composite products last much *longer than conventional* wooden pallets – but are claimed to be no more expensive than these systems. That is in contrast to the pallets made from plastic that a number of companies around the world are investigating which, due to the cost of the virgin material, promise to be two to three times more costly than wooden ones.

Pallets might seem to be rather humble items to get excited about. The products act as platforms for carrying a range of industrial and consumer items as they progress through the distribution chain. Each year an estimated $20bn worth of pallets are produced worldwide, nearly all from wood. In recent years, industry has woken up to the costs of managing such an enormous quantity of items, and of channelling them into landfill sites after only minimal use because they cannot cope with the stresses of being loaded on and off lorries, ships and trains.

In the US, an estimated 150m pallets, weighing some 4m tonnes, are put into landfill each year – equivalent to just under *one-third* of the country's annual pallet production. Partly because of this attrition rate, it is estimated that 40 per cent of all the hardwood lumber used in the US goes to make pallets, making the industry the second-biggest consumer of lumber after construction.

Wooden pallets are environmentally 'unfriendly', with most ending up in rubbish dumps

In the system devised by Dura – which until a year ago was called Transway Capital – pieces of recycled plastic plus cellulose fibre are fed into a hopper and extruded using a mixture of heat, pressure and a novel die design. The finished composite material comes out of the machine as moulded units. From here the units are assembled to make the finished pallet using a semi-automated process.

The feedstock for the pallets – roughly 50 per cent by weight of plastic and of cellulose material – comes mainly from household or industrial waste. The process can use a range of plastics such as low or high-density polyethylene or polypropylene. Normally, wood fibres – for instance, from discarded wood from building sites or from the furniture industry – can be used for the cellulose. But, according to Dura, other types of feedstock such as ground peanut shells or rice hulls are equally suitable, giving the process potential for developing nations.

Dura's ideas have provoked interest in the US pallet industry. "We are very impressed by Dura and think it has a unique approach to the industry," says John Healy, of the US National Wood Pallet and Container Association.

So far the Canadian company has set up two plants, each costing about $4.5m, in Toronto and Boston, Massachusetts. While the Canadian one is likely to make 1m pallets a year by the end of this year, the Boston plant should be working at double this capacity within two years. In the case of the US venture, Dura has set up in collaboration with a local company, Environmental Composite Products, which organises some of the collection of waste materials for the feedstock.

Dura is talking to a number of potential partners around the world about setting up other plants on a similar basis.

In Europe, according to Mr Carrigan, it is talking to companies in France, the UK and Germany about setting up at least one plant this year, with another to follow by the end of the decade. "Within two or three years, we would hope to have a network of 10 to 12 plants around the world, most of which would be in North America," says Mr Carrigan. The company is also discussing sites in the east Asia and India.

Potential customers for the pallets are the large numbers of small companies that operate pallet fleets, often on a local basis, plus some of the big companies such as Chep – a joint venture between the UK's GKN and Brambles of Australia – which do this on a worldwide basis. An important selling point, says Mr Carrigan, is that his company's composite pallets, each of which can lift between 3 tonnes and 5 tonnes, sell for between $16 and $22, making them comparable with the cost of a wooden one.

As to their durability, Dura says they should last many times longer than a conventional wooden product – and when they wear out they can be recycled.

"Over the past 18 months we have had several thousand out in general use, and we have had only three returned because of damage," says Mr Carrigan.

Update • **BioControl Systems**

The eyes have it for computer control

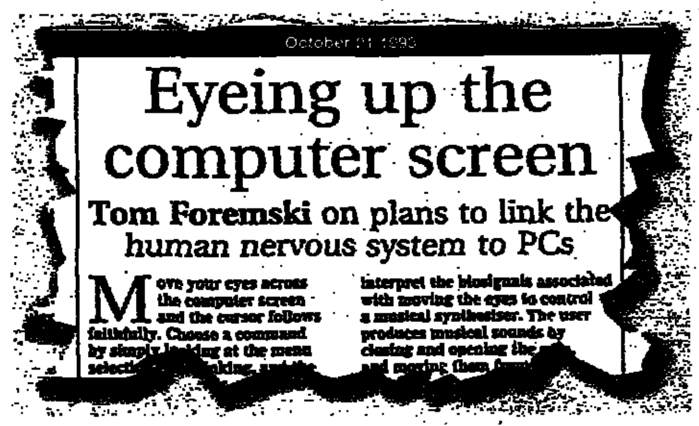
Vanessa Houlder on a company still determined to bring its 'hands-free' product to market

Then: BioControl Systems, based in California's Silicon Valley, *generated a flurry of interest* when it demonstrated its "bio-signal processing technology" – a method of controlling computers through the movement of eyes and muscles. Its champions described it as the most significant advance in computer interfaces since the invention of the computer mouse and graphics icons in the 1960s.

The researchers who founded the company showed that tiny electrical signals generated by muscles, eye movements or even brain activity could be picked up by gel sensors on a headband. They were then fed into a small transmitter which passed them on to a digital signal processor for interpretation.

As an example, the company showed that it was possible to *operate a musical synthesizer* by closing and opening the eyes and moving them from side to side.

Twenty organisations, including the US navy, US medical research laboratories and universities, and some European research organisations and laboratories paid $10,000 for research and development licences.


October 21 1990

Eyeing up the computer screen

Tom Foremski on plans to link the human nervous system to PCs

Move your eyes across the computer screen and the cursor follows faithfully. Choose a command by simply looking at the menu selection ...

interpret the biosignals associated with moving the eyes to control a musical synthesiser. The user produces musical sounds by closing and opening the ...

Now: Despite the early interest in the technology, no products were launched. "The market wasn't ready for it," says Anthony Lloyd, vice-president of BioControl Systems. "There was not the *computer power there is today.* People were not as interested in interfaces as they are today."

But BioControl intends to persevere. Instead of leaving development to the licensees, it intends to launch a product in its own right. The 12-strong company is now trying to arrange the funding and partnerships that will allow it to launch a product this summer.

It believes that prospects for the Hands Free Controller have improved for two reasons. The increased power of computers and the greater sophistication of computer games is fuelling inter*est in superior computer inter*faces.

In addition, the product has been improved by incorporating a tracking device and using a new way of establishing contact between the user and the sensors. Wet, sticky gel has been replaced by a dry electrolyte which was developed by a Boston-based business.

BioControl likes to demonstrate the versatility of the Hands Free Controller on a shoot-em-up computer game. Using a wrist band, a head band and a tracking device, the user can move a character from right *to left with a turn of the head* and forwards by wrinkling his or her forehead. A gun shot can be simulated using a flick of the wrist, while blinking the eye has the same effect as a click of the mouse.

At first sight, the equipment, which is expected to cost around £150 ($240), looks complicated and slightly comical. For most applications, conventional equipment or possibly speech recognition software would seem preferable. But Mr Lloyd argues that the Hands Free Controller allows for a much more natural and intuitive approach to playing a computer game than a joystick or mouse. He is convinced that video game controls will be the biggest single market for the Hands Free Controller.

BioControl also hopes that the device could be a popular alternative to the mouse in some people's working lives. People inputting large amounts of data into computers would not have to take their hands away from the keyboard to move a mouse. Users at risk of repetitive strain injury from over-use of a mouse might find the BioControl system a good alternative.

Mr Lloyd is also demonstrating the product to surgeons, in connection with keyhole surgery. They could use the Hands Free Controller to give commands to the computer that controls the endoscope, while keeping their hands free for surgical instruments.

The technology may also be useful for people with certain disabilities. Mr Lloyd says that the company plans next year to develop an eye movement detector for the severely disabled.

The device is undoubtedly ingenious, but BioControl has several hurdles to overcome before it can bring it to market. After raising about $3m from Singapore investors a year ago to build a prototype, it needs a further $6m in order to be ready to manufacture the device.

It also needs to create partnerships with computer companies that could use the technology. Mr Lloyd reports "strong interest", although no deals have been struck.

"We want to get the word out that the mouse is not here for ever," says Mr Lloyd. "Our message to PC manufacturers is: Why don't you want an alternative? Using a mouse or joystick is unnatural. We think we can do something better."

INTERNATIONAL PEOPLE

New team for Dresdner RCM

Dresdner RCM Global Investors, the fund management group owned by Dresdner Bank of Germany, is to launch a dedicated European equity research team in a move which highlights the trend among fund management groups to conduct cross-border research.

Six analysts will research UK and continental European companies for the group's fund managers. The team will initially be headed by Jan Mantel, chief investment officer of European equities. However, Dresdner RCM is looking for an external candidate to fill the new position of head of European research.

Mantel is understood to have been instrumental in changing the *research practices of RCM. Before* joining the company he wrote a study on the effect of a single currency on the fund management industry in which he argued that cross-border research would be increasingly necessary.

He said: "We believe that there will be growing demand for European products both from institutional and private investors with the arrival of Emu."

Peter Allen, deputy managing director at RCM, said: "The world is changing and Europe will include the UK. We have decided to bring our research capability together."

The group is also to merge its European and UK stock selection teams although it stressed that there would be no change in the way the portfolios were managed.

Dresdner RCM also operates global sector research teams.

Jane Martinson

Mato to head Naviera Pinillos

Spain's privately-owned Boluda group, which runs a fast-growing shipping empire, has hired Angel Mato from the state-owned company *Transmediterránea to be* chief executive of its latest acquisition, Naviera Pinillos.

The move comes less than a year after his appointment as company secretary at Transmediterránea, which the Spanish government is hoping to privatise in 1999. The hiring is evidence both of the Boluda family's recent aggressive expansion policy and the increasingly competitive environment in Spanish shipping.

At 42 – the same age as the Boluda group's executive chairman Vicente Boluda Fos – Mato has spent 17 years at Transmediterránea, where he started as legal adviser, moving on to become purchasing director, marketing director and commercial director.

In the latest of a string of acquisitions of troubled shipping interests, the Boluda group bought an 87 per cent stake in the formerly family-owned Naviera Pinillos last November for Pta1.1bn ($7.4m). Pinillos, with a workforce of 900, is mainly involved in container traffic between the Spanish mainland and the Canary Islands and is also active on Latin American routes.

David White, Madrid

Coca-Cola Beverages names more top jobs

Two further appointments have been announced at Coca-Cola Beverages, Coke's new anchor bottler for central and eastern Europe and northern Italy.

Created as part of a shake-up of the soft drink group's global distribution system, CCB plans a London listing in the summer which will almost certainly give it a place in the FTSE-250.

The chief financial officer is to be Craig Owens, president of Coke's French bottler. He joined Coca-Cola in 1981 and was part of the team behind the spin-off of Coca-Cola Enterprises, the bottler which covers the US and parts of western Europe. Owens was finance director of Coca-Cola Northwest Europe before joining the French bottler in July 1994.

The human resources officer will be Cynthia Hollis, who has been with the Northwest European division since 1995. She joined Coke in 1982 and has held several management jobs including human resources director for the European Community.

They join Neville Isdell, the 55-year-old senior vice-president of Coca-Cola already named as chief executive of the new company. With 30 years' experience with Coca-Cola, he is currently president of the group's Greater Europe Group.

Isdell joined Coke in 1966 as a management trainee at its Copperbelt Bottling operation in Kitwe, Zambia. He moved to South Africa in 1972, rising to general manager of the Coca-Cola Bottling Company of Johannesburg in 1976.

After a spell in Australia and at the top of the newly formed Coca-Cola Bottlers Philippines, he became president of Coke's Central European division in 1985. In 1989, he moved to the Atlanta head office as group president for north-east Europe, the Middle East and Africa, where he supervised the group's push into eastern Europe after the fall of communism.

That drive was led by Coca-Cola Amatil, the Australian bottler which brought its experience from entering emerging markets in Asia. Now CCA's European operations – which include Austria and Switzerland – are to be spun off as Coca-Cola Bottlers, leaving the Australian company to focus on the Asia-Pacific region.

The new bottling company will take over Coca-Cola's bottling operation in northern Italy, which will leave the parent group with a stake of more than 40 per cent in the new company. CCB will have its head office in London, but most of its management operations will remain in the countries where its business is done.

John Willman, London

Moving places

■ Dante Roscini and Antoine Schwartz have been appointed co-heads of European equity capital markets at Goldman Sachs, replacing Michael Evans, who is expanding his role in winning and executing large global offerings for the firm, which topped last year's league tables for equity offerings worldwide. Roscini, a 10-year veteran at Goldman, has been a managing director and chief operating officer of European ECM since 1996. Schwartz, who joined the firm in 1987, has been head of Goldman's convertible capital markets since 1996 and has spearheaded Japanese hybrid offerings. *Evans joined Goldman in* 1992 and became a partner and head of European equity capital markets in 1994.

■ TELSTRA has promoted Nick Notaras European director of sales. He replaces Nicolas Lanzarone who has returned to Australia to take up a senior marketing position within the Sydney 2000 marketing team.

■ RAIFFEISEN ZENTRALBANK (Austria) has made two appointments to develop its advisory capability in Russia alongside its existing commercial and investment banking operations. Alexis Tchoudnowsky, 33, and Dmitry Popov, 31, both previously with Coopers & Lybrand Corporate Finance in London, have joined respectively as managing director and executive director of Raffeisen Investment, a new company providing corporate finance services to Russia-based businesses.

■ ANZ INVESTMENT BANK, the investment banking arm of Australia and New Zealand Banking Group, has appointed Aly-Khan Satchu head of financing in London. Aly-Khan has joined from Sumitomo Finance where he *was global head of repo.* ANZ Investment Bank is continuing to expand its capital markets team with four new appointments in distribution. The new members of the team come from Long Term Credit Bank Latin America where they focused on trading and sales of Latin American Eurobonds. Juan Helbling joins as director, distribution, and Gerald Lawson-Tancred joins as assistant director, distribution. Also joining are Sergio Trigo Paz and Fernando de Nunez both as vice-presidents, capital markets.

■ DRESDNER KLEINWORT BENSON North America has appointed Rahul Merchant executive vice-president and head of information technology and operations. Prior to joining Dresdner Kleinwort Benson North America, Merchant was senior vice-president and global head of technology at Sanwa Financial Products.

■ DEUTSCHE BANK has announced that John Ross, 53, is to succeed Simon Murray as chief executive for the Asia-Pacific region. He has been head of treasury at Deutsche Bank's head office in Frankfurt since *July 1995. Ross will be* succeeded as group treasurer by Detlef Bindert, 52, responsible for Deutsche Bank's money market and repo activities worldwide.

■ Diageo affiliate UDV ESPANA has appointed Francisco Garcia Molina executive president. The company results from the merger of the spirits firms Anglo-Espanola de Distribucion (AED) and United Distillers. Garcia Molina has been a marketing official for edible oil company Koipe and has held posts in former Grand Metropolitan subsidiaries.

■ South Africa's national telecommunications company TELKOM, has announced the appointment of chartered accountant Sizwe Nxasana as its new chief executive with effect from April 1. Nxasana was managing partner of Nkonki Sizwe Ntsaluba, an audit firm he established in the KwaZulu-Natal region.

■ HSBC JAMES CAPEL Australia has appointed Ralph Shipley chief executive and Robin Jones chief operating officer. Shipley succeeds Greg Dobson who has been named deputy chairman, a newly created position. Before *joining the Sydney-based* brokerage, Shipley was the director of financial services for HSBC Financial Services in Dubai. Jones was previously chief operating officer at HSBC James Capel Canada.

■ DEBEVOISE & PLIMPTON, the New York-based international law firm, is expanding its Russia/CIS presence by opening a new accredited office in Moscow. Roswell Perkins will head the office as resident partner of Debevoise & Plimpton LLC. He has been closely involved with the firm's practice in Russia and other areas of the Commonwealth of Independent States since 1989.

■ MINORU MUKAI has been appointed head of capital market sales in the debt capital markets business of HSBC Securities Japan Limited. Mukai was previously with the Bank of Tokyo-Mitsubishi.

■ DAIWA EUROPE LIMITED has appointed David Powe head of Asian sales to be based in Singapore. Powe joins the global unit of Daiwa's fixed income division from Banque Paribas in Singapore where he was co-head of the *financing desk.*

■ DRESDNER RCM GLOBAL INVESTORS, the asset management arm of the Dresdner Bank Group, has appointed Raymond Chan senior fund manager, with a focus on the Hong Kong and China stock markets. He was previously an associate director at Barclays Global Investors Hong Kong and head of its Greater China team.

■ NORSK HYDRO ASA has appointed Geoffrey Richards to president of its petrochemicals division. Richards, currently managing director of Hydro Polymers UK, succeeds Hakon Langballe who retired last autumn.

■ SALOMON SMITH BARNEY has announced *further expansion of its* Asia-Pacific telecommunications research team with the hiring of three analysts who will be joining from BZW. All three will be based in Hong Kong. Lloyd Fischer will join as director and head of Asia Pacific telecommunications research (excluding Japan). Charle Peza becomes telecoms research analyst covering the Philippines and Thailand and Pratik Gupta will be joining as a telecoms research analyst covering Singapore, India and Malaysia.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. *Set fax to 'fine'*

Uganda

The country is embarking on what may prove to be the toughest stage of its recovery. Michael Holman reports

Tall order for a born-again nation

"We do the impossible," reads the sign nailed over the door of a Kampala cobbler. "Miracles take longer."

It could as well hang above the desk of President Yoweri Museveni.

Twelve years after he took power, Uganda is embarking on what is likely to prove the toughest stage of its remarkable recovery from a disastrous past.

Political stability, sound economic management, substantial aid flows, fertile land and hard work have seen Uganda's GDP grow at an annual average of 6.4 per cent over the past decade.

But it is not enough, as the U-shaped GDP graph on the wall of the IMF office in Kampala strikingly illustrates.

Per capita income, it shows, is only now approaching the level last touched in 1971, the year Idi Amin came to power and Uganda's nightmare began.

Can Uganda better this already impressive performance and break out of the ranks of the world's poorest countries?

And can Mr Museveni and his National Resistance Movement preside over a successful transition to a fully democratic system, providing a model for other African states making the shift from war to multiparty politics?

The issues raised would present a formidable challenge under the most favourable of conditions. Weather and war, however, are making the task even harder.

Torrential rains in the region have not only hit production of coffee, Uganda's main export, but also cotton, reducing forecast GDP growth this year to 5 per cent.

The unseasonal deluge, blamed on El Niño, also threatens to disrupt landlocked Uganda's route to the Kenyan port of Mombasa.

Meanwhile, Uganda's security problems look set to increase as relations with the military regime in Sudan continue to deteriorate.

Mr Museveni's support for the southern Sudan rebel movement is drawing Uganda deeper into its neighbour's long-running civil war.

"We expect Khartoum to fall this year," says one senior government official, while independent eyewitnesses report movement of heavy military equipment to the border.

Coffee, the mainstay of the Ugandan economy, has been hit by torrential rains Picture: Pice Prestoto

Khartoum's tit-for-tat support of Uganda's rebels could well increase, fuelling insurgencies in the north and in the west.

The impact this is likely to have on Uganda's military spending, the least transparent area of the budget, is just one of the concerns that have led to rumbles of discontent from the donors.

Corruption that reaches ministerial level and doubts about Mr Museveni's commitment to democracy also may undermine Uganda's reputation as Africa's leading reformer.

So far, however, these concerns have not reduced the aid flows that have helped turn Kampala into a booming city, its streets remarkably safe to walk in. Diners with mobile phones patronise new restaurants, a stock exchange has opened, and assorted consultants, experts and aid workers as well as businessmen fill the hotels.

Entebbe airport, once a backwater, is fast becoming a regional hub, as trade thrives and tourists return to game parks and lakes.

But there is more to the upbeat mood. Few countries in Africa have such a lively and challenging social and political agenda, tackling issues that go to the heart of good governance.

A referendum in 1999 will ask the electorate whether they wish to adopt a multiparty system, or stick to the combination of consensus and coalition offered by Mr Museveni's "no-party" alternative.

Critics point out that although political parties are not banned, their freedom to operate is severely restricted.

Party rallies cannot take place, membership fees cannot be levied, and candidates cannot stand on a party political platform.

Defenders of Mr Museveni's style of government maintain that presidential and ministerial powers are subject to checks and balances, ranging from a lively press, a vocal non-party parliament, an anti-corruption body, and the devolution of power to regional and local councils.

They also point to reforms which tackle some of Africa's main obstacles to development, such as the communal land system.

The government will finalise preparations for a land law, based on popular participation, to improve the security of land tenure and encourage the spread of freehold land ownership. Other examples of the government's broad agenda range from the introduction of universal primary education, to the early adoption of an Aids awareness programme that was ahead of its time, and the deregulation of the airwaves.

On the economic front, inflation is down, the budget deficit reduced to 1.9 per cent of GDP in 1996-7, civil service cut by half, exchange controls lifted, while many of the Ugandan Asians expelled by Amin in 1972 have returned, bringing much needed skills as well as their capital.

Within the next four years, the privatisation programme will be complete, eliminating subsidies that are three times the government contribution to the development budget.

No wonder, then, that the status of Mr Museveni – the guerrilla fighter who became a president, a Marxist turned pragmatist – is second only to Nelson Mandela on the African continent. He is invited to speak at international conferences and is expected to play host to president Bill Clinton during the US president's forthcoming tour of Africa.

Yet Uganda poses Mr Museveni and the donors some tough questions.

For all its impressive growth, Uganda remains desperately poor. Two thirds of the 19m population remains in absolute poverty – defined as an income of less than a dollar a day – with a growing divide between the north and the relatively well-off south.

Nor is Uganda's reliance on aid falling significantly. A government report notes that the ratio of total external support to the total budget has declined from 53.1 per cent in 1995-6 to 49.1 per cent in 1996-7.

But it also acknowledges that the proportion of development expenditure financed by project aid has averaged more than 80 per cent in the past three years. "This will remain the case, at least in the medium term," says the report.

The total financing requirement over the three-year period 1997/98-2000 is projected at US$2.5bn.

The government hopes that the regional imbalance will be changed through its Poverty Eradication Action Plan, while at the same time setting ambitious targets for growth. Other countries have succeeded, so why not Uganda? asks Richard Kaijuka, minister of planning and economic development.

"Uganda's current per capita income of $300 was registered by Malaysia three decades go in 1967. Since then Malaysia has grown to be a middle-income country with per capita income of about US$5,000," he writes.

If this is to be achieved, Uganda must more than double domestic savings and reach eastern Asian levels of 25 per cent of GDP, attract substantial foreign investment, and keep donor funds flowing.

Yet investment is modest, discouraged by Uganda's infrastructural weakness – notably inadequate power – while the prevalence of Aids-related diseases continues to afflict the country.

Professor Paul Collier, an Oxford economist who follows Uganda closely, argues that Uganda has a case for more support, not less.

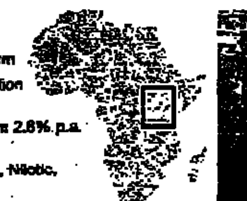
Policy reforms allow for greater efficient use of donor funds, and the demonstration effect will lift the performance of its neighbours.

Professor Collier also strikes a sombre note when he points out: "Even with the high-aid, high-growth scenario, it will take 20 years to raise Uganda to the threshold of the lower middle income group."

If Uganda is to achieve this, it will need all the support from the donors it can get, win higher levels of foreign investment, and emerge unscathed from its involvement in Sudan.

Success may not require the cobbler's miracle, but it is certainly a tall order.

UGANDA



- Area: 197,058 sq km
- Population: 19 million (mid 1995 estimate)
- Population growth: 2.8% p.a. (1996-7 estimate)
- Languages: Bantu, Nilotic, Nilo-Hamitic
- Currency: Uganda shilling (USh)
- Exchange rate: Feb 13 1997 $1=USh1,145.00

• Official name: Republic of Uganda
• Form of state: Unitary republic
• Legal system: Based on English common law and the 1995 constitution
• National legislature: Parliament of Uganda: 276 members, 214 elected by universal suffrage, with the remainder selected by electoral colleges. All serve five years
• National elections: May 1996 (presidential); June 1996 (legislative); next elections due by 2001 (presidential and legislative)
• Head of state: President Yoweri Museveni
• National government: The president and his appointed cabinet; last reshuffle was July 1996

Sources: World Bank; Ministry of Finance; IMF; EIU

Real GDP growth (annual avg): 6.7 per cent (1990-96), 5.6 per cent (1995), 5.0 per cent (1996-7)
GDP per head: $240 (1995)
Total GDP: $5.6bn (1996)
Inflation: 7.7 per cent (annual rate, January 1998)
Foreign trade: Total exports $590m (1996) of which: coffee $404m, cotton $12m
External debt: $3.5bn (end June 1996) equivalent to 62 per cent of GDP and 294 per cent of exports of goods and non-factor services
Debt service ratio: 13 per cent (1996-7)
Overall balance of payments: $101.2m (1996-7 provisional)
Gross foreign exchange reserves: 4.6 months of imports of goods (1996-7)

Main trading partners (share of total trade to world, 1996)

EXPORTS	
Spain	21.1%
France	11.1%
Germany	8.8%
IMPORTS	
Kenya	29.4%
UK	11.8%
India	6.1%

Downtown Kampala

IN THIS SURVEY

Production editor: Roy Terry
Design: Philip Hunt

THE ECONOMY • by Michael Holman

Poverty the spoiling factor

Remarkable growth during the past decade has averaged 6.4 per cent annually

Most African countries would boast about achieving 5 per cent growth in gross domestic product (GDP).

But not Uganda, the country the World Bank describes as "the most consistent good performer in Africa".

After a decade of successful reform, the government's economic managers have higher expectations. But the vagaries of the weather – too dry in 1996/7, and too wet in 1997/8 – rather than any policy shortcomings are to blame for two comparatively disappointing years.

The shattered economy inherited by President Yoweri Museveni has been transformed by sound policies and gross aid flows exceeding US$500m a year.

Import liberalisation has forced the manufacturing sector to be more efficient, the lifting of foreign exchange controls has encouraged private investment, privatisation has reduced subsidies and is increasing efficiency.

The result is that GDP growth has averaged 6.4 per cent during the past decade, and 8.1 per cent over the past three years.

But it has left Uganda with what a UNDP report calls "the paradox of remarkable economic growth amidst pervasive poverty".

GDP per capita *is still only* 78 per cent of its 1971 level, while two thirds of Ugandans still live in absolute poverty – defined as less than a dollar a day – approximately the same percentage as that before the economy's rehabilitation began.

Hence the need for Uganda's economic development to move into a new phase, say officials, beyond rehabilitation and adjustment and towards development

Although the overall target remains high – 7 per cent per annum average real economic growth, with inflation kept to about 5 per cent per annum – more attention will be paid to poverty alleviation.

The government blueprint is set out in the Poverty Eradication Action Plan, which aims to cut the percentage of the 19m population living in absolute poverty from the present 66 per cent to less than 10 per cent by the year 2017.

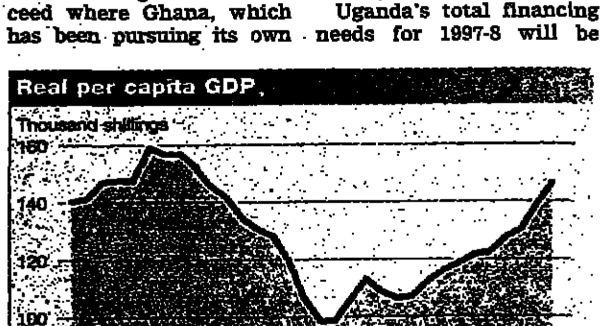
The plan also expects the percentage of the population living in relative poverty to fall from 86 per cent to 30 per cent over the same period.

Central to the strategy is improved feeder roads, as well as reforms of land laws to provide secure tenure, coupled with better agricultural inputs, rural credit, and micro-enterprises.

At the same time, the government intends to increase the share of resources allocated to basic services – health, water supplies, and education – from 23 per cent of the budget to 50 per cent.

Whether Uganda can succeed where Ghana, which has been pursuing its own

Real per capita GDP



Source: Ugandan government

poverty alleviation plan, has had modest success, remains to be seen.

In the meantime, the government has to build on its reforms, with the next phase of privatisation high on the agenda.

Subsidies to state-owned corporations still cost about US$150-200m a year, more than 20 per cent of recurrent budget.

Equally pressing is financial sector reform, following up the restructuring and privatisation of the Uganda Commercial Bank with the development of domestic money and capital markets to increase private sector savings needed to finance a rising rate of investment.

Over the past decade, says Professor Paul Collier, an Oxford economist who follows Uganda closely, the investment rate has risen by six percentage points of GDP, from 10 to 16.

"For a sustained growth rate of around 10 per cent, the investment rate will need to rise by a further ten percentage points to around 26 per cent of GDP," he says in a paper on the economy.

Other priorities include improved revenue collection, and improvements to the country's inadequate electricity supply system.

In the long term, Uganda's capacity to sustain a high rate of development and meet its poverty objectives will depend on foreign investment.

Meanwhile, donor support remains as vital as ever. Uganda's central government budget continues to be dependent on foreign aid. In 1996/97, Uganda was able to meet 55 per cent of total government budget requirements from domestic resources, with the balance coming from donors.

Uganda's total financing needs for 1997-8 will be US$2.107bn with US$1.385bn coming from Uganda's own resources, leaving a financing gap of US$722m to be filled by aid and soft loans.

With this level of external involvement, it is hardly surprising that donors insist on taking a close interest in Uganda's economic management.

Corruption, weak institutional capacity, and the need to target aid more equitably – to include neglected areas notably in the north, and more effectively – are among the main concerns.

But the most sensitive issue is the level of military spending. Defence expenditure in 1997/8 will account for about 9 per cent of all spending, including donor-financed development expenditures, which represents a fall from the preceding year.

If indirect spending is taken into account, however, the figure is higher, and military analysts suggest that the total figure could approach 18 per cent. Part of the reason, analysts suspect, is the cost of covert support for the former rebels in Congo, and for the Sudanese rebel movement led by John Garang.

Donors acknowledge Uganda's security needs, but seek assurances about the transparency as well as the efficiency of military spending.

They were surprised to discover that Uganda had ordered tanks, which hardly seemed appropriate for the counter-insurgency tactics.

They also point to the fact that the Auditor-General's report revealed that about 10 per cent of the recurrent spending in 1995-96 consisted of unaudited classified expenditure.

The second area of concern is corruption. Ugandan officials argue that if there are more cases being reported in the press, it is because the government is doing more to combat it, notably through the Inspector-General of Government.

Most donors concede the point but wonder why senior officials are seldom brought to book.

Despite these concerns, most of the donors have supported Uganda's efforts to obtain debt relief from the joint World Bank-IMF initiative for Highly Indebted Poor Countries (HIPC).

Although the country's debt service ratio has fallen from 54 per cent in 1993-4 to 18 per cent in 1996-7, it remains a heavy obligation.

The World Bank estimates that total assistance to Uganda in 1988-99 and 1999/00 will amount to US$30m per year.

But a paper by the UK-based charity Oxfam disputes the figure and calls for more substantial and quicker results. The rate of disbursement for debt relief will be slow, it claims: "Over the next few years debt relief will amount to around US$20m a year, while debt repayments will exceed US$160m – more than the government is spending on primary education.

"Frontloading debt relief, by implementing the HIPC initiative over a five-year period, would release significant amounts of money."

This could be invested in education, Oxfam argues, helping the government to meet a pledge central to its poverty eradication plan – the provision of free primary school places for up to four children from each Uganda household.

PRIVATISATION • by Michael Holman

Lined up for the biggest sell-off

The country's communications network is on the verge of being transformed

When Idi Amin seized power in 1971, Uganda had 100,000 telephone lines. Today, Uganda has only 46,000 lines serving a population of 19m.

But if all goes according to plan, the country's communications network is on the verge of being transformed.

One of the conditions of the privatisation of Uganda Posts and Telecommunications (UPTC) is that the successful operator should double the lines available by the end of three years, and increase the total to 150,000 within five years.

It forms part of the latest and most exciting phase of Uganda's privatisation programme, involving the state utilities – electricity, railways, water and the national airline. The divestiture of UPTC is expected to be the biggest sell-off since the process started in 1992.

At that stage about 107 enterprises were state-owned, and heavily subsidised – US$208m in 1995-5, or 5 per cent of GDP and equivalent to five and a half times recurrent spending on health, and twice the outlay on education.

Over the next four years, however, all direct and indirect subsidies will have been phased out.

"Misgivings about privatisation have given way to support," says Michael Obagi of the privatisation directorate CHK, "thanks to the demonstration effect – the public are seeing the benefits, greater productivity, and greater efficiency."

So far the government has divested either all or a majority of its shares in 72 public enterprises out of 133 slated for full divestiture.

By June this year, it intends either to have divested all of its shares or to have relinquished management control to strategic investors in 95 enterprises. The remainder should be sold off by June 1999.

"We have moved assets of more than US$1bn to the private sector," calculates Leonard Muganwa, executive director of the Enterprise Development Project, which oversees the programme.

"Our next phase is to invite the private sector to participate more vigorously in the provision of power, water, roads, and other services."

The privatisation of UPTC took shape with the Uganda Communications Act, which authorises the break-up of the corporation into Uganda Telecommunication Ltd (UTL), which will be privatised, Uganda Posts Ltd (UPL) which will remain in government hands, and the Uganda Communications Commission, which will be the regulator for the sector.

Government will initally offer 51 per cent of UTL for sale to a core investor, who will assume management responsibility. Residual shares will be offered to the public at a later date.

The government has prequalified five companies to bid on a second national operator licence.

Next in line is the Uganda Electricity Board, which will lose its monopoly on power generation, and its distribution assets and operations will be sold off.

Bids are invited from mid year, with final sale to a core investor expected in 1999/2000.

The government is considering the possibility of privatising parts of the National Water and Sewerage Corporation, such as bill collection.

Uganda Railway Corporation is also a possible candidate for private sector involvement, while Uganda Airlines Corporation is scheduled for privatisation in 1998/9.

The programme has not been without hitches.

The financial upheaval in eastern Asia has delayed the completion of the sale of the Uganda Commercial Bank to Westmont Land of Malaysia, which bought 49 per cent of the bank with an option to buy a further 2 per cent.

Following the sharp fall in the Malaysian currency, Uganda agreed to extend the payments dates, but the sale is going ahead.

More worrying are complaints about the tender process. An internal World Bank document is understood to have expressed concern about the transparency of the procedures.

Bank officials will not elaborate on the report, but the case of the Apolo Hotel Corporation, which owns Kampala's Sheraton Hotel, has revealed some of the weaknesses in the system.

An unsuccessful bidder asked the Inspector General of Government, Uganda's corruption watchdog, to investigate the case.

The report, released last month, was highly critical of the government committee responsible.

Three government ministers had been "allowed to talk to one of the bidders before awarding the tender without according a similar chance to the other bidders", in an effort "to salvage a bid which they knew had collapsed".

"It is not clear why they were so keen to accommodate this failed bid even at the risk of violating rules which (the committee) had itself established," comments the report.

Mr Obagi acknowledges that the government has had to undergo what he calls a learning process, but argues that the existence of the IGG is evidence of its determination to crack down.

"What we have now established is an attractive investment climate, with a growing capital market, and financial institutions willing to help finance investors."

PROFILE Cerudeb

Banking on mattress money

On the wall of Dirk Van Hook's office hangs a portrait of Uganda's Roman Catholic cardinal. Although he has never met the cardinal, the choice of decoration seems appropriate for a bank manager many peasants consider to be God's gift to the country's underdeveloped rural areas.

From this office the chief executive of the Centenary Rural Development Bank (Cerudeb), in which the church holds an 85 per cent stake, oversees a banking operation with a special mission: providing loans and deposit accounts for those regarded by conventional banks as too poor to be worth bothering about.

In doing so he has started to tap what analysts believe is a huge neglected resource: so-called "mattress money", the savings of millions of peasant families untouched by financial institutions ever since Uganda's rural banking system collapsed during the years of terror.

If the sizes of Cerudeb's transactions are tiny – the average account is 160,000 shillings ($140), the average new loan is $1,000 and a quarter of loans are under $500 – demand is enormous despite interest rates that would be considered crippling in the conventional banking sector.

"We have 77,000 depositors at our nine branches and we are planning to quadruple the size of the bank in the next five years," says Mr Van Hook. "Ten years in Indonesia taught me that poor people have money and that microfinance can be profitable as long as it is priced correctly."

Not only is his work bringing peace of mind to the rural community, ignored by companies who prefer to compete for business in over-banked Kampala, it is the first step in raising accessible domestic savings, the prerequisite for public and private investment, to the kind of levels that proved critical to south-east Asia's expansion.

Government economists say the current domestic savings rate – roughly estimated at 8.4 per cent of gross domestic product – needs to be lifted to somewhere in the mid-20s if Uganda is to break away from its current heavy reliance on foreign aid.

Although two monsignors sit on the Cerudeb's board, Mr Van Hook, a US citizen and a former Peace Corps volunteer, is far from being a soft touch. While foreign donors uniformly complain about the widespread "culture of non-payment" in Uganda that blights their operations, Mr Van Hook says delinquency rates have been slashed since 1993, when Cerudeb was turned from a trust fund to a commercial bank.

He attributes this to the bank's readiness to seize bicycles, livestock and household items offered as security. "A bicycle may not mean much to you, but to someone who uses it to sell goods in the village down the road, it means a great deal," he says. "We're more flexible than other banks in what we accept as security and we follow up vigorously."

But outsiders say the Catholic Church's involvement also plays a role in guaranteeing repayment. "It's one thing not repaying a white-run foreign lender – that's considered free money, fair game," says an expatriate working for a lending institution. "It's another ripping off the local diocese. People have a totally different moral viewpoint on that."

The average customer is a small trader, someone who runs a market stall. Twenty-seven per cent are women. For these mini-entrepreneurs, the 48 per cent interest levied on new borrowers is acceptable because their own profit margins are high enough to accommodate the rate. The only other source of credit, the money lender, will be asking even more.

Cerudeb itself operates on wide margins, which accounts for its profitability. Interest on savings is between 2 and 12 per cent. For the rural kiosk owner, that may seem low, but it remains a lot more rewarding than the mattress.

Michela Wrong

INVESTMENT • by Michael Holman

Returning Asians boost economy

Uganda faces the problems of a weak infrastructure and a small domestic market

When Nile Breweries reverted to the Madhvani Group in April 1992, the production of beer averaged 43,000 crates a month.

Today, the brewery, one of the many businesses nationalised during Idi Amin's expulsion of Ugandan Asians, is thriving.

Monthly output exceeds 350,000 crates, the capacity of the modernised plant in Jinja is 500,000, while taxes on sales provide the government with 4 per cent of its revenue.

And, in a deal which will give Nile Breweries access to the technical, marketing and managerial skills of one of the continent's leading companies, 40 per cent of the equity is now owned by South African Breweries.

Uganda offers no more striking example of the rejuvenating effect on a shattered economy of a combination of expertise, foreign capital and an external stakeholder.

But it is far from certain whether the country can attract the level of foreign investment required to reach its target of double-digit growth, and reduce dependence on foreign aid.

Despite substantial incentives to new investors and the opportunities provided by the privatisation programme, the country faces the problems of a weak infrastructure including inadequate power supplies, and a small domestic market.

And while the return of the Asian community has provided a huge boost to the economy, the investment flows the community generated may be levelling off.

It is just over 25 years since Idi Amin expelled 30,000 Ugandan Asians and seized their properties and businesses.

Most are now permanently settled in Britain, Canada and elsewhere, but many have taken advantage of the Museveni government's decision to return the Asians' assets to their owners.

The Madhvani family were among the first to come back and rebuild a conglomerate which ranges from the brewery to sugar factories and tea estates. The family business has since been expanded by investments in tourism and computer software.

The return of Ugandan Asian capital helped increase foreign direct investment (FDI) from US$113m in 1995-6 to US$160m in 1996-7, according to government figures. FDI

Flashback to 1972: expelled Ugandan Asians have their passports checked at Mombasa by a Kenyan official — Picture: AP

is estimated at 2.7 per cent of GDP in 1996-7, up from 2.1 per cent of GDP in 1995-6.

More recent statistics, however, suggest a slow down in FDI. According to the World Bank, private transfers and foreign direct investment together fell by about 9 per cent in 1996-7.

"There is some evidence suggesting that rehabilitation of the properties of returning Asians has peaked, resulting in lower inflows," says a World Bank report.

William Muhairwe, acting executive director of the Uganda Investment Authority, believes that FDI flows will recover. "Uganda has established a reputation as a safe and profitable country to do business in," he says, and goes on to make his investment pitch.

Uganda's corporate tax rate of 30 per cent is one of the lowest in Africa, and while the domestic market is small, the coountry enjoys duty-free access to the European Union and preferential access to much of the African market through membership of the regional trading bloc Comesa.

Uganda should also benefit from the United States's recent efforts attempt to open its market to African exporters.

Foreign-funded projects in the pipeline include the joint venture of Crown Bottlers Uganda with the UK-based Pepsi-Cola Bottling Investment Fund which will be worth up to US$40m, and the US$110m Kasese cobalt plant due to be opened this month by President Yoweri Museveni.

"I also expect the current phase of the privatisation process to attract substantial outside interest – particularly the telecommunications sector, the state airline and other public utilities, which we expect will involve foreign partners," says Mr Muhairwe.

Access to capital for investors, says Mr Muhairwe, will be made easier by the opening of the Uganda Securities Exchange last month, with dealings in East African Development Bank bonds and Central Bank Treasury bills.

The first listing on the exchange is expected to be the Jinja-based Grain Milling Company Ltd, followed by other recently privatised companies, including the Uganda Commercial Bank.

POLITICS • by Michela Wrong

Party spirit seems to be returning

Most Ugandans are likely to vote in favour of prolonging the status quo

Many Ugandans shudder when they pass the Nile Hotel in Kampala. Now redecorated and reopened to paying guests, this was the building where Idi Amin's police tortured to death hundreds of their fellow countrymen. Day and night, the victims' screams could be heard from the surrounding streets.

Such scarring memories are the only explanation necessary for the fact that when President Yoweri Museveni's "movement" system is put to a national referendum in 2000, the majority of Ugandans are expected to vote in favour of prolonging the status quo.

Derided by the opposition as a one-party dictatorship, disliked by western donors, Mr Museveni's "no-party" arrangement reassures those who blame the horrors of both the Amin and Obote eras on the chaos sown by the country's fractious political parties.

"People really get terrified when you start talking about multipartyism in Uganda," says a young local businessman. "They look at the political parties, which are tearing themselves apart and seem to have no internal democracy, and see the return of all the horrors of the past."

But while Mr Museveni's success in the referendum seems assured, there are growing signs the event could be effectively drained of its political content by the administration itself.

The National Resistance Movement (NRM) that has ruled in Uganda for 12 years, insiders say, is currently going through a period of intense self-examination. What emerges may be a recognition that – public support for the movement system notwithstanding – multipartyism has now become unavoidable.

"Elections alone have changed the nature of movement politics," says Augustine Ruzindana, a member of parliament, referring to the presidential, parliamentary and local polls staged since 1996. "I don't know where we are heading, but we are definitely in a transitional stage."

The divide is between NRM veterans who favour the current system and younger, more progressive members, who believe it is time the NRM emerged as a party, but one so broad-based and tribally inclusive it could cut the ground from under the traditional parties.

President Museveni: referendum success assured *Picture: Headline*

The fact that a debate regarded as unthinkable a few years ago is now taking place – something which presupposes the covert blessing of the head of state – is a response to sustained foreign criticism of the "no-party" arrangement.

But there is also an element of accepting the inevitable – for Uganda's political system, many would argue, is increasingly multipartyist in all but legislation. Although candidates must stand as individuals in elections, rather than on party platforms, there is little doubt in the minds of the public – familiar with their personal history – which parties they belong to. Defying the law, opposition groups have been openly staging delegates' meetings and selling party cards.

And many diplomats say they have been impressed by the feistiness of the parliament produced by the 1996 elections, which is resolutely refusing to act as a rubber-stamp institution.

Opposition members complain that not being able to form formal party caucuses limits their impact. "Without parties, without whips, you cannot be effective in parliament," says Yonasani Kanyomozi, a UPC supporter and former MP. "Everyone ends up operating in isolation."

But members have flexed their new muscles, grouping in ad-hoc, fluid caucuses to trim the budget, censure cabinet members caught with their hands in the till – forcing one minister to resign – and generally calling the government to account.

"Without whips MPs are freer to vote according to their consciences. Having political parties does not necessarily mean freer political action," argues Mr Ruzindana.

Simultaneously, the government's decentralisation drive, which is delegating decision-making and revenue-raising to the districts, passes power to levels where party affiliation is in any case of less importance than individual performance.

Some would argue that multipartyism in Uganda never really went away, it was merely temporarily submerged by the movement system, with the existing parties retaining their essential tribal and religious affiliations virtually unchanged.

This is most clearly exemplified in the failure of the Uganda People's Congress (UPC), the northern-based opposition party with a largely Protestant membership, to replace the exiled Milton Obote as leader.

Party officials say the law prevents them from holding a delegates' conference at which the discredited former president, responsible for a regime just as brutal as Amin's, could be ousted. But for ordinary Ugandans the argument remains unconvincing, a measure of the party's continuing refusal to break with the past.

There is no evidence that even under new leadership either the UPC or the Democratic Party, the southern Catholic rival which is struggling to rid itself of Paul Ssemogerere's uninspiring leadership, would be capable of breaking out of their historical constituencies.

In the run-up to the 2000 referendum, Mr Museveni will have to decide whether the same weakness could in the long term be shared by the NRM, whose elite originates from the west.

In the 1996 elections the NRM succeeded in eclipsing DP candidates in its own southern home base, but it was shunned in the insurgency-hit and impoverished north. If the ban on parties is lifted and the knee-jerk political instincts of the past resurface, the danger is that the movement could emerge as just another ethnic grouping, rather than the "broad-based", "all-embracing" entity imagined by Mr Museveni's colleagues.

"We've been here a long time, but the fear is that it has not been long enough to heal the divisions that would develop if the NRM disappeared," says an NRM activist. "The dilemma is: how do you ensure that the events which resulted in the virtual destruction of our country do not re-occur?"

AGRICULTURE • by Michela Wrong

El Niño puts cotton sector in a spin

The agricultural sector is suffering because of the freak weather conditions

Ugandans may not be too sure how to pronounce it, but they are keenly aware of its impact. El Niño, the freak weather phenomenon that brought first drought and then torrential rains to East Africa, has done more than sweep bridges away, cut off rural areas and trigger a cholera outbreak.

By hitting the agricultural sector, which accounts for 44 per cent of Uganda's GDP and more than 90 per cent of exports, it has placed growth targets out of reach and fuelled inflation by increasing the cost of staple foods.

Hardest hit has been the cotton sector, which only recently started showing signs of a revival thanks to an injection of new investment after years of neglect.

The dry spell in April, May and June prevented farmers from planting. As a result, 1997/98 output is expected to drop by 45 per cent to 60,000 bales from 110,000 bales the previous year – the highest level since the industry's collapse during the Amin era.

Bruce Robertson, a young South African entrepreneur who bought into two ginneries in western Uganda in 1995, admits that after an encouraging start, this has been a disastrous year. "We just have to grit our teeth and hold tight until the next harvest."

Coffee, the mainstay of Uganda's economy, has emerged in slightly better shape. But in a sector that still accounts for 65 per cent of exports and employs 80 per cent of the labour force, any decline affects a huge swathe of the population.

The tea sector is enjoying a recovery so remarkable it can shrug off the effects of El Niño *Picture: Glyn Genin*

At the Uganda Coffee Development Authority (UCDA), officials say the mainly robusta crop could fall as low as 3.5m bags compared to last year's record 4.23m. Depending on world prices, that should bring in around $340m in foreign exchange, a $60m drop on last year.

"The drought coincided with the flowering period, which meant instead of maturing the flowers aborted," says Tress Bucyanayandi, managing director. "Then soils were waterlogged and there was a problem drying the crop. The coffee is coming in later than it should and quality is bound to be affected."

The constant humidity has also exacerbated the problem of coffee wilt. But in the long term this may prove to be a blessing in disguise, say coffee experts, as it is encouraging farmers to undertake the long-overdue replacement of 30-year-old trees, more prone to fall victim to the disease.

The UCDA, which has been tapping a tax on exports to open nurseries across the country, want 10m coffee seedlings planted each year, with the entire stock replenished over two or three decades – a prerequisite if the eventual target of 6m bags is to be achieved.

"In the laboratory clonal coffee can produce up to 4,000kg per hectare per year," says Henry Ngabirano, UCDA quality manager. "In the field we expect yield to reach 2,000kg, compared to 6-700kg with the old plants."

If President Yoweri Museveni has voiced hopes Uganda will eventually export roasted and ground coffee rather than green beans, insiders admit that local processing remains a very distant dream despite discussions with a range of Spanish and British companies. Increasingly, there is a growing realisation that Uganda's manufacturing sector is too small to be the engine for growth and that the country must focus once again on its traditional strengths – in this case, its status as Africa's leading coffee exporter.

Government planners these days talk more of the importance of developing feeder roads, improved extension services and developing market towns than working towards a manufacturing-led export drive, an emphasis welcomed by the coffee men.

"You cannot simply march machines into an area where people have nothing," says William Naggaga, UCDA's secretary. "If you can improve the rural economy and empower rural people, then you will have created a market for manufacturing."

Liberalisation of the coffee sector, launched in 1990, has already gone some way towards achieving that aim. The state marketing monopoly has been removed, allowing 50 exporters to compete for business and ensuring a bigger share of proceeds ends up back in the village.

Experts estimate that farmers' share of the world price has risen to 65 per cent from 16 per cent a decade ago.

Anyone doubting the long-term potential of Uganda's soil and rural labour force should take inspiration from the tea sector, currently enjoying a recovery so remarkable it can shrug off El Niño. Tea exports have risen from 2,000 tonnes in the late 1980s to 16,940 tonnes in 1996. So pleased is Britain's Commonwealth Corporation Development by returns on its investment in Rwenzori Highlands Tea, the country's biggest growers, they are thinking of expanding existing estates. "In 1995 the situation was so dire we were despairing," says Brian Perks, country manager. "Now we are quite bullish."

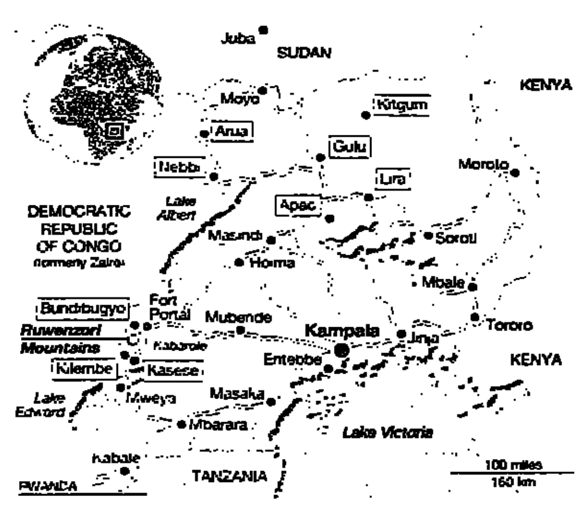
High cost of war

The Uganda People's Defence Forces, numbering around 50,000 men, is struggling to contain two rebel insurgencies. While analysts agree that neither is capable of toppling the government or holding territory, the campaigns represent a heavy drain on resources.

In 1997, official defence spending was 12.6 per cent of the budget. But experts estimate the real figure may be closer to 20 per cent.

By creating large populations of internally-displaced people and refugees needing food aid – 500,000 in 1998 compared to 265,000 in 1995 – the fighting has also crippled development.

President Yoweri Museveni's recent army shake-up, in which his brother Salim Saleh was appointed defence "overseer", was implicit recognition of the seriousness of the problem.



North-west

The West Nile Bank Front (WNBF) is led by Colonel Juma Oris, once Idi Amin's foreign minister. It used to operate from bases in Sudan, whose government backed its activities, attacking targets such as Arua and Nebbi.

Since the Sudan People's Liberation Army (SPLA) rebel group of John Garang killed hundreds of WNBF guerrillas in May/June 1997, the group no longer poses a threat.

But Khartoum now appears to be encouraging the formation of a new movement in the north-west, the Uganda National Rescue Front 2, already responsible for some low-level attacks.

North

Since 1986 the Lord's Resistance Army (LRA), a fundamentalist Christian guerrilla group, has been challenging Kampala's rule. Led by Joseph Kony, a former choirboy, the group abducts children and forces them to kill. It is supported by Khartoum.

Although Mr Garang's rebels have seized many of its bases in Sudan, the LRA still manages to infiltrate northern Uganda with hundreds of fighters.

Since November 1997 the LRA's focus has moved from Gulu to Kitgum. LRA guerrillas have infiltrated as far south as Lira and Apac districts. Following SPLA attacks, their bases have shifted and are now close to Juba in Sudan.

The army has responded by herding residents into "protected villages", often against their will, but fails to control the situation.

Agriculture has been disrupted, with nearly 300,000 peasants fleeing to urban centres.

Northern parliamentarians are pressing Kampala to reopen negotiations with the LRA, suspended in 1994, and for Mr Kony to be offered amnesty, recommendations endorsed in a US State Department report. So far President Museveni has refused, arguing that LRA atrocities make forgiveness impossible.

West

Estimated at between 600 and 1,000 men, the Alliance of Democratic Forces (ADF) groups members of the Moslem Tabliq sect, a local Ugandan liberation movement, exiled members of Rwanda's genocidal militia and former Zairean soldiers. Based in the Rwenzori Mountains, it stirred into life in 1996 when Laurent Kabila's military campaign deprived it of safe haven in Zaire and cut supply lines with Sudan. It briefly occupied Bundibugyo and has been active in three provinces, prompting aid agencies to pull out, game parks to close and villagers to abandon their farms.

Its main attacks have been on Bundibugyo, Kasese, Kilembe and in a variety of villages in Kabarole province.

Three thousand reinforcements have been sent to the area and in recent months the UPDF, which is working in tandem with Mr Kabila's army across the border, appears to have the upper hand. All but 58,000 internally displaced people have returned home.

RAILWAY PROJECT • by Michela Wrong

Tracks across Africa

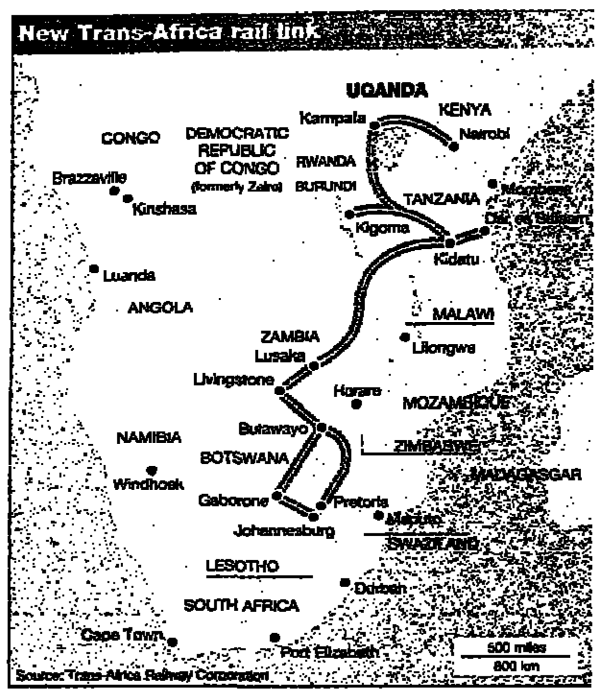
A planned $20m railway link with Johannesburg will open up a crucial access route

When torrential rains repeatedly severed the Nairobi-Mombasa highway last month, trapping trucks from east and central Africa in 25km tailbacks, it was a painful reminder of a tactical problem that has always overshadowed Uganda's recovery.

Because of its landlocked position, Uganda has always had to rely on Kenya and Tanzania's infrastructure and administration to get goods in and out. Both have been known to fail, placing Ugandan entrepreneurs at the mercy of corrupt port authorities, greedy foreign trucking companies and hostile customs officials. Now the private sector has come up with a rail initiative that could open up a crucial access route, cutting freight costs, slashing transit time and giving Uganda closer links with the continent's most powerful economy – South Africa.

The $20m project is the brainchild of Trans Africa Railway Corporation, a Tanzanian-registered company.

New Trans-Africa rail link



Source: Trans-Africa Railway Corporation

Comazar – in which South Africa's state-owned rail operator Spoornet and Belgium's Transerb have a joint holding – is the main shareholder in Trans Africa.

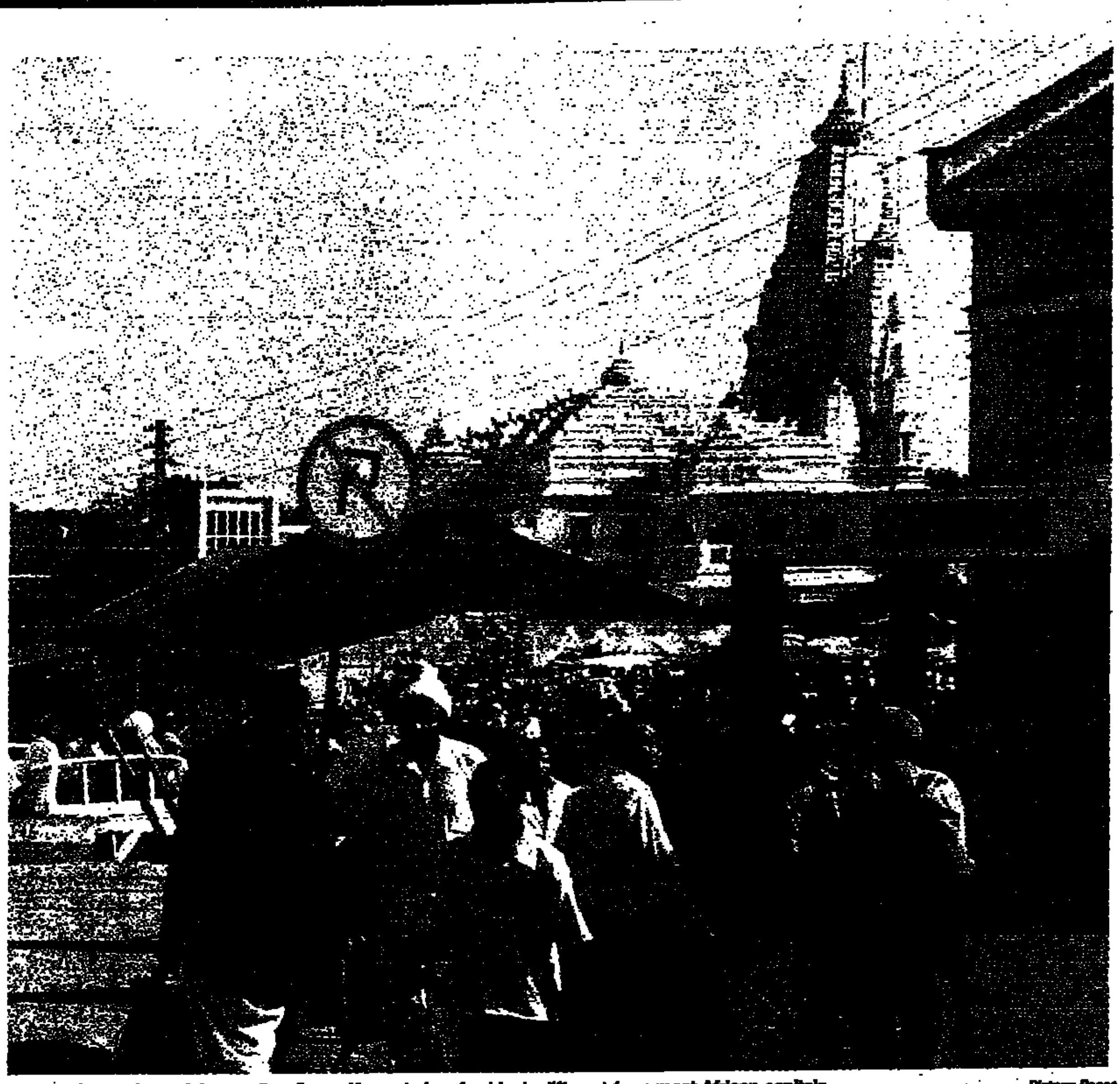
The aim is to establish a direct rail link between Johannesburg and Kampala. Instead of being shipped from Durban to the notoriously inefficient ports of Mombasa and Dar es Salaam and then trucked or routed by rail to Uganda, containers would be sent along existing rail lines, including part of the Tazara railway, to Kidatu, south-west of Tanzania's capital.

There, only 20 metres divides the Tanzanian rail network from the line running south. But because the gauges on the two networks differ, the lines cannot simply be linked. Instead, Trans Africa plans to build a transhipment centre where containers can be lifted off the southern network by crane and on to Tanzania's system.

Mark Gordon, a director on Trans Africa's board, says transit time from South Africa to Uganda, which now takes a minimum of six weeks, should be cut to 20 days. "We were hoping to have cargo moving on the route in April but the rains have done a lot of damage to Tanzania's network and September is now looking more likely," he says.

For Uganda, a project reminiscent of Cecil Rhodes's imagined Cape-to-Cairo rail link offers timely new hope. Long-touted plans to divert Ugandan cargo from Mombasa to the Tanzanian port of Tanga have made little progress so far, undermined by environmental concerns over the required construction of a rail line running across part of the Serengeti game park.

"We see this as a viable alternative route, especially as trade between ourselves and South Africa increases," says John Nasasira, Uganda's transport minister. "It has our support."



In a continent where violence often flares, Kampala is refreshingly different from most African capitals Picture: Panos

TOURISM • by Michela Wrong

Wildlife renaissance

Animals are now returning to the beautiful Murchison Falls National Park

At Murchison Falls National Park in north-west Uganda the shells of staff buildings peeping from the long grass bear witness to the turmoil that devastated a once thriving tourism industry.

They were destroyed by Idi Amin's retreating troops, who also played their part in slaughtering the wildlife, helping to reduce to several hundreds an elephant population that had reached 14,500 in 1969.

Animals and tourists are now returning. During the boat trip to Murchison Falls, where the Victoria Nile explodes through a six-metre gorge, visitors chug past hundreds of hippo with their young, scores of crocodiles, grazing bull elephants and an extraordinarily rich variety of birds.

But there are practical reasons why Uganda – which draws around 200,000 visitors a year – is likely to remain a select destination for years to come. If the national parks are breathtaking in their beauty, they are also located at the end of teeth-shattering dirt roads.

While Entebbe airport has been modernised and entrepreneurs are revamping existing tented camps and opening new hotels, marketing remains primitive. Despite all the talk of East African co-operation, an effective regional strategy which would sell the region's attractions to the world is still lacking.

Murchison Falls National Park: animals are returning Picture: Hutchison

GUIDE TO UGANDA • by Michela Wrong

Capital experience for business travellers

In Kampala, human contacts are warm and even officialdom wears a smile

A Ugandan newspaper recently highlighted a worrying new trend in the streets of Kampala.

Police, it said, had received several complaints of youths who were surrounding pedestrians, "holding them firmly", while relieving them of their valuables. "I was attacked by four people who held me tightly while one of them searched my pockets," an indignant victim complained.

The report – positively reassuring to travellers aware of the far nastier ordeals they face on the violent streets of Johannesburg and Nairobi – is a measure of what makes Kampala so refreshingly different from most African capitals.

Despite a burgeoning population and the arrival of previously unheard-of traffic jams, the city retains a charmingly parochial atmosphere. Crime levels are low, it is possible to walk across the tiny centre of the capital without being harassed by beggars, human contacts are warm and even officialdom *comes with a spontaneous* smile.

The Ugandan experience begins at Entebbe, picturesquely located on the shores of Lake Victoria. The airport, one of the continent's most modern and hassle-free, offers a decent range of duty-free goods and a reliable bus service covering the 45-minute trip into town. Alternatively, a taxi ride costs $30.

The real horrors are the hotels: they are overpriced, inefficient and determined to provide 24-hour musical entertainment. Visitors who regard air-conditioning and international lines in their rooms as essential are doomed to the expensive Sheraton or its cheaper but far less comfortable rivals, the Grand Imperial and Nile.

If visitors can make do with public telephone booths in the lobby and simple fans, the range expands to include the unpretentious Speke – now being renovated – Shanghai, Fairway, Kabira Club and Diplomate, a little way from the town centre.

With some hotels charging a staggering $7 a minute for calls to Europe, a useful early purchase is a phone card which can be used for international and local calls. It may also be worth renting a mobile phone from Celtel. Most government offices are within walking distance but private taxis can be rented by the hour or at a daily rate of $40-$60.

The restaurant scene is becoming more diverse with *each passing year. Good* Indian restaurants include the Haandi, Chaat House and Maharajah. Chinese cuisine is available at Fang-Fang and the Shanghai, while Crocodiles and 7CooperRoad, situated in the same compound, offer excellent continental cooking.

Arranging a trip out of town can be frustrating because many tour companies are not geared up for the local visitor. If you want to cut down travelling time by flying to the many airstrips scattered across the country you may have to organise your own charter. Eagle Air are used to dealing with small groups.

Tourist locations, whether Mweya Lodge in Queen Elizabeth Park, the Sarova Lodge and stunning Nile Safari Camp in Murchison Falls or Fort Portal's Ndali Lodge, are unforgettable, but the trips are too long to justify anything less than an extended weekend. If you want to visit the mountain gorillas in Bwindi – a breathtaking experience – it is best to book in advance because the Uganda Wildlife Authority issues only a limited number of permits.

It is worth remembering that while credit cards are accepted by the top hotels, many restaurants and car hire firms will demand cash. Conveniently, US dollars are widely accepted.

The El Nino weather effect has exacerbated health risks in what is already a risky part of the world. Malaria prevention should be started *before arrival and the local* water should be treated warily given a recent outbreak of cholera.

Those wanting to monitor Ugandan affairs from home can subscribe to the New Vision newspaper for $80 a year and receive it on e-mail. The address is: nvision@imul.com. Their free web page is http://www.imul.com/vision. The address of the Monitor, the independent daily paper is http://www.africanews.com/monitor/.

Useful telephone numbers: international code 256 +41 for Kampala, +42 for Entebbe (Kampala unless otherwise indicated).

Hotels: Kampala – Sheraton 244590, Grand Imperial 250681, Nile 235900, Fairway 259571, Shanghai 250366, Speke 259221, Diplomate 267625, Kabira Club 530647. Entebbe – Lake Victoria 20644.

Travel: British Airways 257508, Sabena 234202, Air France 342907, Kenya Airways 233068, Uganda Airlines 232990, Alliance 344011. Eagle Aviation 042 20601 or 041 234382 for charters. Phoenix (credit cards accepted) 236096 or Belex 268851 for tours and car hire.

Offices: Finance Ministry 234700, Trade Ministry 231104, Uganda Privatisation Agency 256467, Uganda Investment Authority 251562, Uganda Manufacturers' Association 220285, Commonwealth Development Corporation 235784, Development Finance Company of Uganda 256125, Bank of Uganda 258441.

Embassies: UK High Commission 257054, US 259791, European Union 233303.

Banks: Barclays 341329, Standard and Chartered 258211, Stanbic 230852.

MINING • by Michela Wrong

Riches may soon be on tap

The legendary Mountains of the Moon may soon be yielding its treasure

It has been promised and postponed so often, few dare tempt fate by waxing lyrical about the Kilembe mining project. But if no new last-minute hitches materialise, Uganda may finally be about to tap riches that have lain dormant in the legendary Mountains of the Moon for the past 16 years.

A presidential tape-cutting for what will constitute the country's biggest single foreign investment has been provisionally scheduled for this month. On November 4 the first of an estimated $400m worth of cobalt will start being extracted from pyrites stockpiled in the Rwenzori foothills.

The aim is to begin marketing the cobalt – output of which should ideally reach 1,000 tonnes a year – before an expected surge in production from Zambia and Democratic Republic of Congo undermines the metal's current high world price.

"Demand is high at the moment and supply limited, but other companies are entering the field and in three or four years' time the price could change," says Moses Owor, chairman of the state-owned Kilembe Mines Ltd. "As long as the cobalt price does not fall below $15 per pound, the project remains viable."

The challenge of foreign competition is the price Uganda is paying for a string of hiccups and delays.

Rehabilitating Kilembe, a copper mine that closed during the disastrous presidency of Idi Amin leaving behind tempting stockpiles of cobalt-rich concentrates, has actually been under discussion since the early 1980s. Hundreds of workers have been kept on the payroll, pumping water from the shafts in the hope of eventual revival.

But environmental worries, problems in raising finance and fluctuating interest from foreign investors have kept development hanging in the air for a decade and a half.

A big hurdle was the determination of successive Ugandan governments not to repeat the environmental damage done by the original workings, which sent acidic run-off pouring into the nearby Lake George and Queen Elizabeth National Park, a World Heritage site.

The $110m Kasese cobalt extraction plant now under construction, a joint venture in which Canada's Banff Resources Ltd and the Ugandan government hold 55 and 25 per cent stakes respectively, will use bioleaching, a bacterial method which produces non-toxic effluent. "This will be the first bioleaching of cobalt at a commercial level in the world," says Mr Owor with pride.

Late last year a further obstacle surfaced: the escalating campaign being waged by the Allied Democratic Forces (ADF), guerrillas operating from bases in the Rwenzori. As ADF fighters raided Kilembe hospital and attacked local farms, yet another reason to delay the project appeared to be emerging.

Troop reinforcements have now been posted to the area and military analysts say the ADF is in retreat, although guerrilla organisations are notoriously difficult to root out. "The president has promised us he'll move in if we say we are worried," says Mr Owor. "But as of today people are convinced security in the area is sufficient."

For locals, who regard Kasese as a potential catalyst for regional growth, there is too much at stake for such promises not to be kept. Not only will the project bring in precious foreign exchange, a hydro-electric plant being simultaneously built will supply the surrounding area with power, while plans to revamp the dilapidated railway running from Kampala to Kasese are sure to receive a boost.

Processing the pyrites will take a maximum of 12 years. Before that time elapses management must decide whether cobalt's world price justifies tackling the tailings, a decision that would extend the project life another four years but require a pre-treatment plant.

The harder decision – to close the carefully-maintained old mine for good – is unlikely to be made. A feasibility study last year indicated drilling hard rock could not be economically justified. But Ugandan officials are bound to shy away from the prospect of laying off hundreds of workers in a marginal area with a history of rebel activity.

ARTS

Medium for the night

William Packer finds urban America portrayed in mezzotint

A small town near Pittsburgh: detail from 'Braddock', 1997, a mezzotint by Craig McPherson

Of all the techniques of print-making, mezzotint is perhaps the least well-known. The term is familiar enough in the field of 18th- and 19th-century Old Master prints, but even so, it is rather as a medium of extensive reproduction, long since superseded, than as a creative medium in its own right.

It is certainly labour-intensive. The principle is to establish a surface to the plate that, when inked, will print as the deepest and most velvety of blacknesses. But whereas with aquatint a somewhat similar effect may be quickly achieved by biting with acid through a dust of resin, with mezzotint it is all done by hand, patiently working the "rocker", a tool that can have 100 teeth to the inch, across the surface, now this way, now that, until the entire plate has been treated. A large one will take months. And only then is the image imposed, by burnishing and scraping into that densely textured surface, working out from dark to light.

Craig McPherson is an American painter, now nearly 50, who first experimented with mezzotint some 20 years ago, variously exploiting the medium's dramatic and atmospheric extremes of tone – indeed, in a view of Tryon Park in Manhattan (1978), turning dusk into midday by wiping the plate rather more than less. By the early 1980s his prints had fallen in line with his essential subject as a painter, which is the high view across the city. With his "Yankee Stadium at Night" (1983), a version in print of a mural painting he had made for American Express, his name as a print-maker was made. It is a remarkable image, with its vast black sky and flickering, shadowy city, and the dome of light above the stadium itself like a visitation from another planet.

Since then print and painting have gone hand in hand, with McPherson frequently working up his trial proofs with paint and pastel into a unique state. But where in the painting he seems to respond to the cold, bleak light of day and clearly loves the winter, in the print it is the moody obscurity of night that intrigues him – the dingy street, the parking lot, the pool of light above the café door. Mezzotint is, after and above all, a medium for the night. His antecedents are many, from Sickert and Grimshaw to Hopper and Marsh, an artist of the modern city in the great tradition of 20th-century American Realism. But he is his own man, quite distinct.

In this exhibition, the Fitzwilliam Museum at Cambridge gives McPherson the painter his due, but the print-maker the emphasis. More to the point, in showing the prints through the several stages of their proofing, it celebrates the artist in his true creative engagement. And in putting him before an English audience for the first time, it does us a service.

Across the city at Kettle's Yard, Andrew Smith, who is also nearly 50, is having his first solo show. Though he trained as a painter, he has worked only intermittently, and this body of work, made over the last four years or so, represents something of a fresh start.

He, too, has found his subject in the interplay of light and dark, though in his case it tends to be a dappled daylight playing through a canopy of leaves. The earlier paintings are more open, but typical in that they declare his enduring formal interest in the image of a path winding away between banks and trees. Through many variations, he has lately painted little else.

His method is to work from photographic reference, sometimes drawing upon several sources for the single image. What he tends to lose by this is the information and uncontrived invention that nature supplies. His figure-drawing is weak, for example; his trees tend towards the formulaic, and his colour is held within a narrow tonal range of green and brown.

But then again, this near monochromatic and tonal unity gives coherency to the composition and an emphasis to the soundness of its construction. With the exception of the weaker and more uncertain early paintings, both space and light are on the whole convincing within these limitations. And the images themselves generate a curiously authentic sense of a real place, that has not merely been seen but physically experienced. We, too, come down that very bank, and cross the ford, just so. One would not wish them so very different, but only richer in their immediate detail. The drawings, which are self-conscious, unexploratory and complacent, suggest ironically a way forward even as they offer the reproach.

The space is shared by Susan Derges, whose photograms are made by laying photo-sensitive paper under running water and then exposing it by flash-bulb at dead of night. It is an ingenious method of achieving rather beautiful, if arbitrary effects – darkness into light again.

Darkness into Light – mezzotints by Craig McPherson: The Fitzwilliam Museum, Trumpington Street, Cambridge, until March 15. *Woods & Water* – paintings and drawings by Andrew Smith, photograms by Susan Derges: Kettle's Yard, Castle Street, Cambridge, until March 1.

Music in London

New piece, and a new pianist

Going on 70, the composer Thea Musgrave – Scottish, but long resident in America – is operating on full power. Her new *Phoenix Rising*, a BBC commission, had its premiere by Andrew Davis and the BBC Symphony in the Royal Festival Hall last week, and a notably warm reception.

It was one of those occasions when an audience which has mostly come for something else (in this case, Dame Felicity Lott in Strauss's "Four Last Songs") finds itself unexpectedly drawn into and delighted by a new "modern" piece. *Phoenix Rising* has a naive scenario: "darkness into light", like many another piece recently, and here with a stagey conflict between serene solo horn and an angry timpanist who at last stalks off the stage, defeated. That is trivial; the music is *not*.

Musgrave's lyrical gift is prominent, everywhere seductively orchestrated – concentrated and enhanced by her atonalist stretch long ago, when Schoenbergian "twelve-note" composition was in vogue. Now she fixes tonal roots, comforting to the general ear, but composes much as she has always done: strong lyrical lines that really *sing* – often through some favoured first-desker – the score teems with orchestral solos, besides the horn and timpani roles; and plangent harmonies that betoken a special ear and personality.

Phoenix Rising is too unabashedly romantic to count as "modernist", but nothing in it sounds second-hand. The many episodes it traverses, from the opening "Dramatic, violent" to the final "Floating and luminous", make a cogent sequence: attractive and rewarding to hear, much more than just this once.

It says something that the Musgrave piece commanded everyone's full attention, in a programme that also included an exquisitely decadent *Valses nobles et sentimentales* (Ravel's, of course) from Davis and his pliable orchestra, and from Dame Felicity a radiant, full-voiced, long-breathed account of the Strauss.

Last summer's winner of the Van Cliburn International Piano Competition in Texas was Jon Nakamatsu, a Japanese-American who also won the US National Chopin Competition. He appeared last week in London at the Queen Elizabeth Hall in a faultlessly conventional virtuoso programme: a piano-transcription of Franck's *Prélude, fugue et variation*, and old familiars by Brahms, Schumann and Chopin. He delivered the Franck beautifully and temperately, with a technique as refined as it was assured. He delivered everything else in exactly the same way.

He is the very model of a consensus-interpreter. There was no personal line to detect in his impeccable piano-playing, nothing to surprise, enlighten or vex. We really *had* heard it all before, and usually with more dramatic thrust and bite, if more wrong notes.

David Murray

Modesty runs deep in Minnesota

A certain modesty is becoming in a visiting orchestra. This was the first time I had seen an orchestra seated on the floor of the Barbican stage with no raised platforms, even for the players at the back who were visible only by the tops of their heads. Strangely, the sound seemed neither better nor worse. What was gained in a cavernous depth of reverberance was lost in the lack of impact suffered by the wind and brass hidden at the rear.

Still, there have been other visiting orchestras that have fared worse in these awkward acoustics than the Minnesota Orchestra did last week, when it made its UK debut as part of the Barbican's year-long festival *Inventing America*.

Under its new music director, the Japanese conductor Eiji Oue, what we heard here was a very proficient orchestra, with vibrant, confident strings that dominated the ensemble (how could they do otherwise when their companions were muffled?). For Samuel Barber's glossy First Symphony from 1936 – not often heard, perhaps because of its single-movement compactness – they were well suited, strings surging forwards with a brash glamour more reminiscent of Hollywood than chillier Minnesota.

They also brought with them a new American piece, specially written for this tour. Dominick Argento's *Reverie, Reflections on a Hymn Tune*, was the typical occasional piece, which is keen to be liked and takes care not to get too involved in any demanding musical argument. Still, Argento uses the orchestra sumptuously and the unveiling of the hymn tune by quietly humming players on the back desks is a novel touch – most orchestral players leave the singing till the bar afterwards.

The rest of the programme included a thoughtful performance of Mozart's *Sinfonia Concertante for Violin and Viola* with first-rate soloists Gil Shaham and Nobuko Imai, sensitively accompanied by Oue, and a characterful, but not quite blazing account of Bartók's Concerto for Orchestra. Oue is not so blatant as simply to go for the showpiece effects favoured by some, but a touch more Hungarian fire would not have come amiss. Maybe the modesty runs deep, after all.

Richard Fairman

Berlin Film Festival/**Nigel Andrews**

Bear hug for road movie

The suspense was intense. The jury sat in epic conference this year, under the invigilation of Ben "Gandhi" Kingsley, before finally handing the Berlin Golden Bear to a peaceable, pleasing film from Brazil. Goodhearted critics were happy; news-junkies who wanted a furore left empty-handed.

Mentioned in dispatches last week, Walter Salles' *Central Station* is a road movie *cum* social drama with massive feelgood potential. Since Fernanda Montenegro's performance as the old con-woman who befriends an orphan boy also won Best Actress prize, every other Berlin movie was effectively an also-ran.

They included the Special Jury Prize-winning *Wag The Dog*, Barry Levinson's comedy about a philandering US president distracting the nation with a war (all resemblances to real life...); Neil Jordan's *The Butcher Boy*, which won Best Director; and Quentin Tarantino's overlong *Jackie Brown*, for which Samuel L. Jackson collected Best Actor.

Elsewhere, this was a festival full of mad overlaps and repetitions, like a piece of Nyman or Glass music. We had three Robert De Niro movies, with the Method marvel playing a White House spin doctor (*Wag The Dog*), an LA gangster (*Jackie Brown*) and a modern-dress Magwitch (*Great Expectations* updated to 1990s New York). We had two John Grisham thrillers from art-and-craft directors, Coppola's goodish *The Rainmaker* and Altman's not-so-goodish *The Gingerbread Man*. And we had so many graphic movies on gay themes in the after-hours "Panorama" sidebar that evenings were spent shuttling between Sad-dam on the small screen (dash-back newsbreaks on our hotel TVs) and *Sodom* on the large.

Festival-wide, there was strength in depth and many films did go deep. Two of the best out-of-competition movies were documentaries from lesbian directors, though not about lesbianism. Donna Deitch's *Angel On My Shoulder* chronicles the last weeks of cancer-suffering actress Gwen Welles, famed (albeit briefly) for *Nashville* and *Short Cuts*. Living in neighbouring bungalows, the director and subject chat, muse, weep, rage – or rather Welles does as Deitch watches – and create a diary of dying that is seldom grim but somehow touching and delicate, at times even self-deprecatingly funny.

The Brandon Teena Story, co-directed by Susan Muska and Greta Olafsdottir, reconstructs the small-town rape and murder of a "boy" who had been exposed as a female-to-male transexual. As the makers prowl the Nebraska sticks and parade their full hand of interviewees – the criminals, the cops, even Brandon's ex-girlfriends – the film resembles a Truman Capote magnum opus crossed with a true-life TV thriller. If David Lynch hasn't convinced you that middle America isn't all twee picket fences, here is the film to do so.

In the Bear-competing sector not all the films were of top quality, especially in the last days. We almost had to be nailed to our seats to watch George Sluizer's *The Commissioner*, a Brussels-set Euro-thriller about as exciting as watching Neil Kinnock go 10 rounds with Leon Brittan; or two inept Australian social dramas, *The Boys* and *The Sound Of One Hand Clapping*, that encouraged the sound of many feet leaving; or...

But why litanise? There was always tomorrow, which could bring good surprises and on the last full viewing day did. Japan's enthralling *Sada*, overlooked by the Golden Bear jury, won a deserved International Critics Prize. Director Nobuhiko Obayashi takes the same true story that inspired Oshima's *Empire Of The Senses*: a geisha girl who killed her lover and cut off his penis, alleging (in the first action at least) his full consent. The *cause célèbre* really did become celebrated in Japan, flowering into an archetypal tale of mad love.

Obayashi takes an anti-Oshima route. No graphic sex or heavy romantic agony. Rather, the treatment evolves from the farcical to the stoical-sacrificial, without our ever quite noticing the subtle tone-changes. The manic improvisations of early scenes – colour alternating with monochrome, speeded-up motion, even a scene where the film appears to stick and jigger in the projector – give way to a focused, magisterial wonderment at love's co-existent extremes of kindness and cruelty.

INTERNATIONAL ARTS GUIDE

■ BELFAST

OPERA
Opera Northern Ireland, Grand Opera House
Tel: 44-1232-241919
Hansel and Gretel: by Humperdinck. Conducted by Graham Jackson in a staging by Aidan Lang, with designs by Lee Brotherston; Mar 1

■ BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
...schatten von sehnsucht.... Last Blues: premiere of a new work choreographed by Renato Zanella to a score by Wilfried Maria Danner. Programme also includes works by Massimo Moricone and Mauro Bigonzetti; Feb 27

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Falstaff: by Verdi. New production conducted by Claudio Abbado in a staging by Jonathan Miller. Ruggero Raimondi sings the title role; Feb 24, 27

■ BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Duke Bluebeard's Castle: new production of Bartók's one-act opera, conducted by Lothar Zagrosek. Staging by Anne Teresa de Keersmaeker, who is also choreographer of Quatuor Nr. 4, which completes the programme. The sets for Bluebeard are by Gisbert Jäkel, with costumes by Rudi Sabounghi; Feb 24, 25, 26, 27, 28; Mar 1

■ EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
Scottish Opera: Così fan tutte, by Mozart. New production by Stewart Laing, conducted by Nicholas McGegan; Feb 24, 26

■ FRANKFURT

CONCERTS
Alte Oper
Tel: 49-69-134 0400
Christine Schäfer: recital by the soprano, accompanied by Graham Johnson; Mozart Saal; Mar 1

■ HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Okko Kamu; Feb 24, 27

■ LISBON

OPERA
100 Days Festival, Expo '98
● Kirov Opera: Sadko by Rimsky-Korsakov; Teatro Nacional de São Carlos; Feb 24
● Kirov Opera: Betrothal in a Monastery, by Prokofiev; Main Auditorium, Centro Cultural de Belém; Feb 25

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Mstislav Rostropovich conducts a programme of works by Shostakovich; Feb 26; Mar 1

Royal Festival Hall
Tel: 44-171-960 4242
● The Royal Opera: Andrea Chénier, by Giordano. Concert performance, conducted by Edward Downes. Cast includes Maria Guleghina and Anthony Michaels-Moore; Feb 27
● Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Beethoven and Mahler; Feb 24

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● The Elixir of Love: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Lloyd; Feb 25, 27
● The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hoheisel and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Feb 24, 26

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Giulio Cesare, by Handel. Directed by Lindsay Posner and conducted by Ivor Bolton, with designs by Joanna Parker. Cast includes Amanda Roocroft and Ann Murray; Feb 24, 26, 28

■ LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
The Magic Flute: by Mozart. Revival conducted by Julius Rudel in a staging by Sir Peter Hall; Feb 24, 26; Mar 1

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Sir Charles Mackerras in an all-Janáček programme including his Glagolitic Mass; Feb 28
● Evgeny Kissin: first of five recitals in the UK to be given by the pianist; Feb 24

■ MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Berlin Symphony Orchestra: conducted by Michael Schønwandt in works by Tchaikovsky and Berlioz. With piano soloist Oleg Maisenberg; Feb 27
● Royal Philharmonic Orchestra: conducted by Daniele Gatti in works by Paganini and Mahler. With violin soloist Shlomo Mintz; Feb 28

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Munich premiere. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; Feb 25, 28

■ NEW YORK

CONCERTS
Carnegie Hall
Tel: 1-212-247
www.carnegiehall.org
● Sibelius Academy Symphony Orchestra: conducted by Esa-Pekka Salonen in works by Beethoven, Sibelius and Stravinsky; Feb 25
● Vienna Philharmonic Orchestra: conducted by Riccardo Muti in an all-Mozart programme, including the overture to Le nozze di Figaro; Feb 27

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Samson et Dalila: by Saint-Saëns. New production by Elijah Moshinsky, with designs by Richard Hudson; Feb 25, 28

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Leif Segerstam in works by Segerstam and Sibelius. With violin soloist Gidon Kremer; Feb 25, 26

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Minnesota Symphony Orchestra: conducted by Eiji Oué in works by Mozart and Tchaikovsky; Feb 24

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Tristan und Isolde: by Wagner. New production conducted by James Conlon in a staging by Stein Winge, with designs by Lennart Mörk. Cast includes Wolfgang Schmidt and Sabine Hass; Feb 27

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Favorite: by Donizetti. New production by Beni Montresor, conducted by Frederic Chaslin; Feb 24, 25, 26, 28; Mar 1

■ SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in Stravinsky's The Firebird. Programme also includes works by Takemitsu and Copland; Feb 25, 26, 27, 28

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

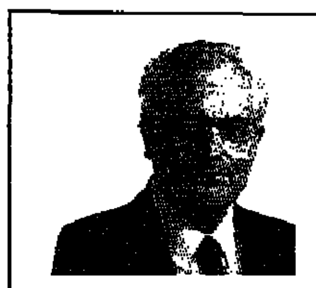
EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS



Martin Wolf

The deflation nightmare

A downward spiral in prices and output is possible. How should the world's richest countries react to the danger?

Like swans on a fast-flowing stream, the finance ministers and central bankers of the Group of Seven industrial countries gave an appearance of calm at their weekend meeting in London. Under the surface, though, they were all paddling frantically. The question is whether they were doing enough to avoid the deflationary waterfall downstream.

The consensus view of the impact of the east Asian crisis on members of the Organisation for Economic Co-operation and Development is calm. Goldman Sachs, the investment bank, suggests that the direct impact is to reduce OECD gross domestic product by 0.3-0.6 per cent this year and 0.8 per cent to 1.2 per cent in 1999. Not that much, and easier monetary policy and sharp reductions in long-term interest rates (see chart) should bring the ultimate outcome towards the bottom half of the range.

Some people have a darker view. Writing in the FT on January 15, Robert Reich, erstwhile US labour secretary, called on policymakers to respond to the Asian crisis by abandoning their outdated obsession with inflation and focus, instead, on deflation.

In February, the Montreal-based journal International Bank Credit Analyst articulated this case more fully. Its argument was that:

- Inflation was already very low – at about 2 per cent in the world's 25 largest economies – before the Asian crisis began.
- The crisis has tipped the world economy into general excess supply, at current nominal prices and prospective demand.
- Central banks, still fearful of inflation, are unlikely to take the actions needed to sustain demand.

Would this imply deflation? To answer the question, first define the term. Deflation is not the same as changes in relative prices: the long-term decline in prices of computer chips is not deflation; similarly, falling dollar prices of exports from crisis-hit economies is a terms of trade improvement for importers, not a general deflation.

The classic definition of deflation is a sustained fall in the prices of goods and services. Japan is the only country in which (to judge by the bond markets) there is a prospect of such a thing. But deflation might, more loosely, be viewed as a period of stagnant output, rising unemployment and flat prices. The decline in the real rate of interest, as measured by UK index-linked gilts, from 3.7 per cent last August, to 2.6 per cent today, suggests this scenario is deemed plausible. Just as plausible is asset price deflation, which itself can cause stagnation in demand.

How might the nightmare evolve? Assume, for example, that the Japanese authorities failed to expand domestic demand to counteract the declining net surplus with the rest of Asia. The result might be negligible economic growth, perhaps even decline. This would bring still lower long-term interest rates and a weaker yen. Net Japanese exports to countries outside Asia would rise sharply, adding to the export growth coming from the crisis-afflicted countries.

Meanwhile, the European Union would proceed, untroubled, with the last stages of its Maastricht-induced fiscal contraction. Worse, European central bankers, obsessed with their credibility in the run-up to economic and monetary union, would watch calmly as the European economy, hit by the turnaround in trade with Asia, fell back into slower growth.

Where, then, would all those Asian exports go? The answer is that virtually all adjustment in external accounts would have to fall on the US and, to a lesser extent, the UK. The International Monetary Fund in its preliminary assessment of the impact of the Asian crisis, published last December, forecast a rise in the US current account deficit from \$178bn (£108.50bn) in 1997 to \$230bn in 1998 and in that of the UK from \$2bn to \$17bn.

In its February Monthly International Review, London-based Lombard Street Research argues that the shift in the current account position of the industrial countries could be as big as \$100bn. Most of this would still be in the US and UK. Such a shift would slow growth; it would also exacerbate US protectionism.

The combination of economic slowdown with growth in imports from Asia would severely squeeze US corporate profits. As the International Bank Credit Analyst notes: "Double-digit earnings expectations cannot be maintained even if inflation remains at recent levels. An economic slowdown will push earnings growth even lower." This would be bearish for US equities, which have been boosted to close to all-time record valuations, by a once-and-for-all reduction in real interest rates.

The US personal sector has an exceptionally low savings rate, has had negative cash flow since 1994 and is heavily indebted: in 1996, a year of excellent economic performance, the number of personal bankruptcies exceeded one million for the first time. If Americans were to respond to declining share prices by increasing savings, the US could be tipped into deeper recession, with a consequent squeeze on corporate cashflow that would further exacerbate the downturn. The decline on Wall Street would trigger similar falls in most other markets.

If the nominal prices of assets were to register a steep fall and economies were to slow as well, debt deflation would spread beyond Japan and east Asia. In a debt deflation, people devote income to trying to retire excessive debt rather than spending. But what makes sense for individuals does not do so for economies. In an economy gripped by private-sector debt deflation, activity can be sustained only by expanded fiscal deficits, improved external balances, or both.

This nightmare of global stagnation, accompanied by declining equity prices and large shifts in trade flows causing severe friction, is only too plausible. Even if there were no general decline in prices (strict deflation), this loosely defined deflation would severely damage the political legitimacy of greater global economic integration.

So what can be done?

First, the G7 must keep on trying to halt the Asian financial crisis, in the teeth of the Indonesian president's efforts to deepen it.

Second, Japan will have to do more to sustain economic activity. Since a large increase in its external surplus would now be intolerable to its trading partners, the only source of additional demand is the fiscal deficit. The Japanese government is able to borrow long term at an interest rate of 1.9 per cent; and its net public debt was only 18 per cent of GDP in 1997. It is crazy to argue that a bigger budget deficit is unsustainable.

Third, at a time of large-scale external adjustments, the EU must not proceed as if nothing were happening. Rules laid down in the Maastricht treaty are a guide, not a straitjacket.

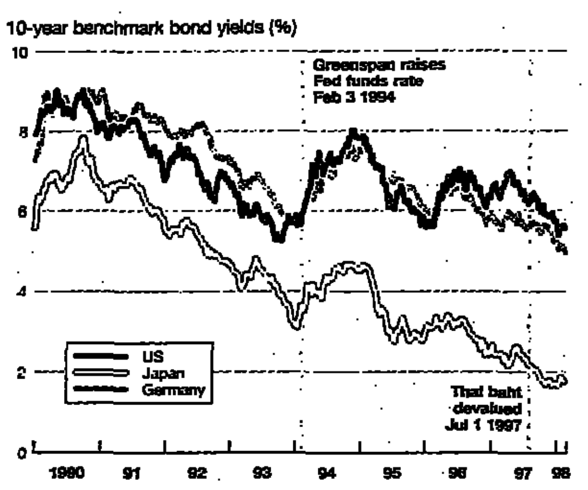
Finally, the US government must persuade both people and Congress that larger current account deficits are a remedy for inflationary pressure in an economy close to full employment.

Is a serious slowdown in the world economy inevitable? No. But the answer is "no" only if aggregate demand is sustained, even against the background of Asian adjustment. The G7 has to paddle furiously. If the swans are as calm as they are trying to look, they could end up on the rocks.

Martin.Wolf@FT.com

Are these the harbingers of deflation?

10-year benchmark bond yields (%)



Source: Datastream/ICV

Personal View • Donald Johnston

The case for MAI

The Multilateral Agreement on Investment would ensure greater liberalisation

Multinational investment is the lifeblood of global commerce. But the Multilateral Agreement on Investment has recently attracted a certain amount of hostility. Unions and greens, for instance, have claimed that the agreement being negotiated by the Organisation for Economic Co-operation and Development could drive down labour and environmental standards. An editorial in the Financial Times (February 19) suggested that the MAI negotiations may be flawed or even unnecessary. Let's take a close look at these concerns and ask why are so many governments interested in the MAI.

For years, international investment has made an important contribution to economic growth. Its significance has increased dramatically recently, with flows amounting to \$340bn (£200bn) in 1996. The benefits are numerous. Host countries receive fresh capital, technology and knowhow. Source countries get access to new markets.

A wider framework is essential if these gains are to be consolidated and increased. Of course, investment decisions are taken by private companies and are market based. But the policy environment makes a vital difference. Predictable and transparent laws and regulations offer the prospect of greater investment flows, lower risk premiums and higher returns to investors. Sustaining investment flows calls for determined leadership from the world's leading economies.

At the moment, rules of investment are set by a complex network of bilateral and regional treaties. Important as these are, they lack many of the disciplines contained in the MAI. Moreover, their coverage is far from complete, especially among the OECD countries. It is true that governments are competing for investment funds and the trend in most countries is still towards greater liberalisation. But that does not mean there is no point in global rules. The Asian crisis has brutally reminded us that we cannot afford to assume that favourable conditions will continue indefinitely.

Hence the need for a multilateral treaty. Under the MAI, the 29 member countries and those non-OECD countries that decide to adhere to it will commit themselves to a comprehensive set of rules designed to protect and promote international investments. The aim is to ensure open markets and a sound legal environment based on the principle of non-discrimination between domestic and foreign investors. Equally important, the MAI will provide an enforceable mechanism for settling disputes between states and between investors and states.

It should not be surprising that the negotiations are taking place in the OECD. Since the member countries account for 60 per cent of global inflows of foreign direct investment and 85 per cent of outflows they have a major stake in the outcome. It will be easier to reach an agreement among the 34 countries within the OECD (including the five non-member observer countries), which can then be extended to a wider forum.

Some people have said that even if there should be an investment agreement, and even if it should be the OECD that negotiates it, there is still a problem. This is that the MAI could become a fortress of preferential agreements for OECD members. This concern is not warranted. On the contrary, the MAI is designed as a stand-alone agreement to ensure that non-OECD countries can participate on an equal footing. The precise terms of accession will be negotiated country by country, ensuring that the development interests of each country are taken into account. Consultations with non-OECD countries have been held throughout the talks.

As the negotiations advance, it is necessary that each country's authorities scrutinise the emerging agreement and that adjustments are made in the MAI to avoid unintended effects. Last week officials met in Paris to refine the details of the agreement. They reaffirmed the importance of achieving an ambitious agreement covering in principle all sectors and economic activities, with high standards of liberalisation and investor protection. It will now be made clear, for example, that the MAI will not inhibit the normal regulatory powers of government and that the exercise of those powers does not amount to expropriation. Similar scrutiny is under way to ensure a smooth interface with other international agreements.

That does not mean everything is signed and sealed. I do not underestimate the difficulties that lie ahead. The extent and nature of exceptions now being negotiated will determine the economic content of the agreement. Ideas are still being refined to respond to labour and environmental concerns and I am convinced that the MAI will establish high standards and prevent manipulation to attract or retain investments. The issues raised by illegal expropriations and by conflicting requirements applying to enterprises in different jurisdictions need to be resolved.

Nevertheless, we should not lose sight of the remarkable progress achieved so far. As the draft text reveals, negotiators have at hand the essential elements of an agreement.

A high-quality agreement on investment is within reach. The MAI deserves the active support of all who share my conviction that international trade and investment offer the best chance of world prosperity in the 21st century.

The author is secretary-general of the OECD

LETTERS TO THE EDITOR

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Good reasons for favourable US attitude towards Israel

From Mr Henry Knobil.

Sir, Philip Stephens states ("The smart solution", February 20) that he has yet to hear a convincing defence of the relatively favourable attitude of the US towards Jews as opposed to Arabs and, at least by inference, its favourable attitude towards Israel. Perhaps the following comments may be helpful.

Israel is the only democracy in the Middle East and it is perhaps understandable that one democracy feels more supportive of another, as opposed to autocracies or dictatorships.

From the moment of its creation in 1948 Israel has been the one reliable and steadfast ally of the US under all circumstances, even to the point of allowing Iraqi Scuds to rain down on its territories without retaliation during the 1991 Gulf War, in an endeavour to sustain the allied coalition.

Had Israel not destroyed the Iraqi Osirak nuclear reactor in the 1980s, who knows what the outcome of the Gulf War might have been and, indeed, what effect that might have had on the present situation in the Middle East.

Many of those who survived the Holocaust are currently US citizens and, again, it is perhaps understandable that successive US administrations have taken into account the needs of Israel, the country that has given shelter and a safe haven, not only to the majority of the survivors, but also to Jewish refugees from wherever in the world they have felt oppressed or in danger.

Henry Knobil,
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Recoverable reserves

From Mr Peter Catto.

Sir, You report that Atlantic Caspian's "recoverable reserves ... amounted to around 160m barrels against previous estimates of 39m" ("Atlantic Caspian reserves up", February 11). I hasten to correct this.

The recoverable reserves of our Kamenstoye field in Kazakhstan are 31.9m barrels, against the previous estimate of some 9m barrels. Using a 20 per cent recovery factor this equates to 159.5m barrels of oil in place against the previous estimate of 39m barrels.

Peter Catto,
chairman,
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A victim of horse trading

From Mr Anthony Clark.

Sir, Doubts about the functioning of the European Central Bank reach far beyond the procedures for appointing its first president ("Superman search", February 18). The ECB will have the task of managing the central currency on behalf of the oddest bedfellows imaginable. They will have been parachuted in as a result of private deals and stitch-ups. (Isn't it time we started asking questions, not about Italian membership, but about the Belgian candidature? Belgium's accumulated debt is more than twice the requisite 60 per cent of gross national product, and the highest in the European Union.)

Second, the ECB will have to run in tandem with the highly political Euro-X committee. There will be deep conflict here on many points: the setting of the dollar-euro parity, the handling of the socio-economic crises arising from large-scale unemployment (which, in turn, has been severely aggravated by the operation of the Maastricht criteria).

Third, the effort needed to sustain the whole fabric of economic and monetary union will require constant political intervention. This union will be "for ever". The ECB will be caught in the middle. Economic and monetary union was conceived in an act of political horse trading. It will only be kept alive by similar means.

Anthony Clark,
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Dividend more of influence on share price

From Mr Michael Ullmer.

I refer to your article "Australia banks stumble in regional gloom" (February 17) and the implications of the turmoil in Asian markets. With respect to Commonwealth Bank, as noted by Standard & Poors, our exposure to the Asian region is very modest and our reliance on earnings therefrom is slight. Indeed, our recent interim results were extremely well received by the market, reflecting our increased market share, improved cost/income ratio and increased return on equity.

I write to note that the decline in our share price following the release of the Standard & Poors report coincided with our shares going ex the 46 cent interim dividend declared for the first half. I suspect this was the more significant influence of the two!

Michael Ullmer,
group general manager,
financial and risk management,
Commonwealth Bank of Australia,
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Very quick to learn

From Dr Judith M. Belam.

Sir, I was sorry to see that Ana-Paula Laissy (Letters, February 18) was so badly piqued by the cartoon that accompanied Della Bradshaw's article "Getting women on board" (February 9).

Far from belittling the potential contribution of women, the caption states quite clearly that once women have cracked the central problem of how to deal with men in the workplace (which will take them just one hour), business school has nothing more to teach them about how to be successful managers.

Judith M. Belam,
Higher Pitt,
Longdown,
Exeter EX6 7SB, UK

Circulation estimates

From Mr Yves de Chaisemartin, Mr Serge July and, Mr Jean-Marie Colombani.

Sir, In your article "French press turns new page" (February 17), David Owen cites circulation figures of leading French daily newspapers (Le Figaro, Libération and Le Monde) that are not directly comparable.

The figures reported represent, for Le Figaro the total circulation (national and international), for Le Monde the national circulation, and for Libération the news stand sales figures in France.

The latest estimates of the 1997 daily circulations (source: The Editor) of these three newspapers are: Le Figaro 351,600 (national) and 366,700 (total); Libération 161,600 and 170,800; and Le Monde 338,500 and 382,500.

Yves de Chaisemartin,
Le Figaro;
Serge July,
Libération,
Jean-Marie Colombani,
Le Monde,
Paris, France

COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday February 24 1998

Blessed reprieve

US and British officials were rightly cautious yesterday in reacting to the agreement with Iraq negotiated by the UN secretary-general. The devil is bound to be in the detail; and Kofi Annan has promised to reveal the detail only when he gets back to New York today.

But Mr Annan has played his cards shrewdly. While publicly insisting that he went to Baghdad to negotiate, not to bring an ultimatum (so that Iraq was not humiliated), it is clear that in private he was careful to get a very precise negotiating mandate approved by all five permanent members of the Security Council. And he would not have announced the agreement with such confidence unless he were sure that it falls within the terms of that mandate.

On paper, therefore, it must fulfil the essential US and British demand that the inspectors of the UN special commission (Unscom) be given "unfettered access" to sites where they suspect weapons of mass destruction, or the means of producing them, may be concealed.

That means it will be difficult, if not impossible, for the US and UK to reject the deal, despite their reasonable doubts about Saddam Hussein's sincerity. Both Bill Clinton and Tony Blair should be grateful to Mr Annan for sparing them the responsibility for a bombing campaign whose objectives they were unable to formulate convincingly, and which seemed likely to do them great damage with world, perhaps even with domestic, opinion.

Credit due

Indeed, we should all be grateful to Mr Annan for reminding us what the UN is for. But some credit is also due to Mr Clinton and Mr Blair for taking the risk. As Mr Annan put it yesterday, "you can do a lot with diplomacy, but of course you can do a lot more with diplomacy backed up by firmness and force". His soft cop act could not have worked without the hard cops in London and Washington behind him.

The Clinton administration deserves credit for keeping its eye on Mr Saddam's destructive capabilities, and refusing to let Unscom's worrying report last October be swept under the carpet. But its overall management of Middle East security has been unconvincing, to say the least. As for the European Union, in the latest crisis it did not even attempt to find a common position, perhaps wisely since the two most interested members had such divergent views. Once again it showed that a common foreign policy will not be achieved without closer integration of European societies.

Strategy re-think

Mr Annan has given everyone a breathing space. He has not solved the problem of Saddam Hussein, still less the wider problems of the Middle East. The time gained should be used for a careful re-think of strategy in the region, preferably by the US and Europe together.

Such a re-think must be bold and open-ended if it is to succeed. But as far as Iraq is concerned, the aim must be to draw a more meaningful distinction between the regime and the people. Up to now both sanctions and military strikes – the main instruments used for "containing" Mr Saddam – have been unpopular and ineffective because they appeared to punish the victim instead of the criminal.

More broadly, any workable Middle East policy must avoid appearing to be fixated on one country, and it must take more account of the views of those in the region whom it is intended to help. That will almost certainly mean offering carrots as well as sticks to Iran, and sticks as well as carrots to Israel. Direct linkage between the Arab-Israel issue and other conflicts in the region should be resisted, but the US must realise how much credibility it loses by applying different standards to different violators of UN resolutions or possessors of weapons of mass destruction.

Finally, the problems of the region require sustained attention. When left "on the back burner" they have a habit of boiling over.

A Budget for the workers

If Gordon Brown could choose his epitaph as UK chancellor, it would be that he created the economic stability to underpin more than a decade of Labour government. In this time, incentives would be so changed that most of the long-term unemployed would be back in work.

In his first 10 months, the chancellor has tackled the first part of this agenda determinedly. By putting the Bank of England in charge of interest rates, he diverted political pressure away from the Treasury. This enabled him to concentrate on holding the line on spending and taxes, to good effect.

He approaches his second Budget on March 17 with the prospect of a negligible public sector borrowing requirement in 1998-99 and a small surplus thereafter. Some analysts think he could cut taxes or raise spending by about £3bn, without breaching his "golden rule". This says that public deficits should be no more than public investment over an economic cycle.

He should resist such blandishments, for three reasons. First, UK interest rates are too high for manufacturing industry and may have to rise even more if inflation is to be controlled. A looser fiscal policy would only make the Bank's task harder. Second, the comprehensive spending review, due to be completed this summer, will need to make hard choices if savings are to match extra commitments. This is no time for the Treasury to wobble.

Uncertain projections

Third, fiscal projections are uncertain: any lurch into recession could quickly push up borrowing, as happened between 1991 and 1994. This may not be the most likely prospect, but it would be better to be cautious. On the other hand, the possibility of a sharper-than-expected slowdown argues against any further tightening now.

Mr Brown will find a neutral Budget easier to deliver than the other strand of his plan: a wide-ranging reform of the tax and benefits system to promote jobs. A complete solution to these intractable problems cannot be expected next month, but the chancellor must show that he knows where he is going.

Minimum wage

When Labour swept to power last May, it was encumbered by a sheaf of pledges, some of which were inconsistent or poorly worked out. The minimum wage, for example, will hinder rather than help people to obtain jobs, unless it is set very low. Then, the 10p starting band for income tax will, by itself, do little to help the lowest paid, because many benefits are cut when *after-tax* pay rises.

His plan to move the family credit from the benefits to the income tax system is fraught with difficulties, partly because of the interaction with other welfare payments such as housing benefit. Perverse incentives, for example, are created by the the high marginal tax rates which people face as such benefits are withdrawn higher up the income scale. But to flatten out the "tapers" would be costly and would suck even more people into the benefits net.

Real help for the lowest paid will require extra money. Higher employers' national insurance contributions at the top end of the scale are the most likely bet. If this were used to make a genuine improvement to work incentives, a moderate increase could be justified. But the chancellor must recognise that the economic effect would be similar to a rise in income taxes, which his party abjured before the election.

A consistent framework of incentives is also needed for private savings, particularly if they are to do more to supplement state pensions. This requires that the proposed Individual Savings Accounts should not be too restrictive, and that changes to capital gains tax should not hit the small saver.

Dozens of committees have been asked to design different sections of this jigsaw. Mr Brown will be judged by his ability to show how the big picture starts to fit together.

After the Annan deal

David Gardner examines the implications for Saddam Hussein's amibitions and for US policy throughout the Middle East

Kofi Annan is the toast of the Middle East. After 15 hours of talks in Baghdad, the United Nations secretary-general has secured written undertakings from Iraq that UN inspectors would get unimpeded access to all sites they suspect might harbour chemical or biological weapons.

Clockwise around Kofi Annan: Bill Clinton, Richard Butler, Benyamin Netanyahu and Saddam Hussein

The full details of the Baghdad agreement will not be known until Mr Annan reports to the UN Security Council today. But plainly the secretary-general believes he has kept within the "agreed advice" given him by all five permanent members of the Council including, at the last moment, the US. "In my view, the terms of this agreement, which have been concluded in writing, are acceptable and remove a major obstacle to the full implementation of relevant Security Council resolutions," he said before leaving Baghdad.

True, the US, echoed by the UK, has not withdrawn its forces has reserved any endorsement of the deal until it has seen the text. But it would seem, nonetheless, that a new air war has been averted – along with the dangerous, anti-western backlash this would certainly have triggered across the Islamic world.

Assuming the deal holds, then, are we back to the *status quo ante* over Iraq? More to the point, is that where US and UN policy should return to, both in trying to contain Saddam Hussein, and in trying to manage the Middle East as a whole?

As things stand, both Iraq and the UN can plausibly claim that their goals have been achieved. The deal commits Iraq to letting Unscom – the UN commission of inspectors charged with dismantling Iraq's weapons of mass destruction – do its work. The eight "presidential" sites at the centre of the crisis, to which Mr Saddam had barred access, will probably be inspected by Unscom in the company of UN diplomats, with the Iraqi dictator's palaces given more decorous treatment than other buildings in these sprawling compounds.

Crucially, there will be "no time limits or deadlines" on these or other inspections. In announcing this, Mr Annan had cause for satisfaction: he had overcome – in three hours of face-to-face negotiation with Mr Saddam described as frank and brutal – Iraq's previous insistence on an end to the audit within 60 days.

One US official warned yesterday that "we're going to want to see if it's 100 per cent [compliance with UN resolutions], not 98 per cent". Washington had feared Mr Saddam would climb down enough to make it difficult for the US to justify air strikes, but not enough to satisfy its security concerns. But on the face of it, Mr Annan's package looks enough for Bill Clinton, the US president, to claim – as US officials normally do at this juncture in crises with Iraq – that Iraq's unpredictable leader is "back in his box". The US and UK will also be able to say you can force through deals only if you yourself are willing to use force.

That is not, of course, how it will look to Mr Saddam. His brutal grip on power looks as firm as ever. His image among the Arab masses has been much restored. He is seen to have stood up to a US which has mismanaged the Middle East peace process and failed to deliver on its promise of an equitable regional settlement, through unwillingness to press its ally Israel to restore conquered Arab land in exchange for peace. Mr Saddam is on something of a roll.

In last November's crisis over Unscom, Iraq managed to get back on the UN's agenda the question of ending the sanctions that have been in force since the invasion of Kuwait. Recently, the Security Council has moved towards increasing the value of oil Iraq can sell to buy food and medicine from $2bn (£1.10bn) to $5.3bn every six months.

Now, Mr Saddam can feel that he is breaking out of his diplomatic isolation. With the oblique exception of Kuwait, all Arab countries, along with France, Russia and China among the permanent members of the Security Council, opposed military action. Iraqi officials were given audiences from Paris to Tehran to present their case. And Mr Saddam himself was able to treat with the titular head of the UN, which he and other Arab leaders regard as a counterbalance to American bias towards Israel in dealing with the Middle East.

Mr Saddam almost certainly sees the Annan deal as a significant step towards getting sanctions lifted – his major goal of the past three years. The secretary-general emphasised that this would be the outcome of compliance on weapons, and said yesterday it was important the inspections be completed "in a reasonable period".

Has Mr Saddam therefore sacrificed his other assumed goal – of retaining at all costs a residual capability in non-conventional weapons? That is, on his past record, to be doubted. There is no reason to assume his regional ambition to lead the Arab world has dimmed. He spotted his opportunity to divide his opponents, took full advantage of the US's loss of credibility among other Arab countries, and has managed to focus international attention on the suffering caused to the Iraqi people by sanctions.

His calculation appears to be that the US will not be able to stick to its declared position that sanctions should stay until he goes, and that in the long run it will not be politically possible to maintain the embargo on Iraq. The US may hold out. But if it does, sanctions on Iraq would come to have the same effect that the largely unworkable unilateral US sanctions on Iran now have. Even if all Iraq's weapons are accounted for, moreover, the country's scientists know how to recreate them, and that knowledge cannot be inspected. Given the west's past record in supplying Mr Saddam with dual-use machinery, moreover, he may well feel confident of being able to rearm in future.

Well before then, however, other confrontations with Iraq are on the cards. Most immediately, there are likely to be clashes over whether Richard Butler, the Australian diplomat heading Unscom, stays in his job. Iraq believes he is an instrument of US rather than UN policy – which could mean no more than he is doing his job too well. But he has had a tendency to stray from disarmament into politics. Last month he told the New York Times Iraq was known to have loaded germ weapons with capacity to "blow away Tel Aviv, or wherever". Arab leaders were and are furious. As President Hosni Mubarak of Egypt, who co-ordinated the Arab response to the crisis, told the FT last week: "his statement made the whole [Arab] people believe that attacks on Iraq would be [carried out] for the sake of Israel".

There is also ample scope for conflict in the new $5.3bn oil-for-food facility now before the Security Council. At current (and falling) prices Iraq could only export around $3.5bn in oil every six months unless it is allowed to import machinery to restore its oil fields and installations. In addition, as currently drafted, the facility amounts to UN intrusion on a scale that would institutionalise sanctions into the future. It puts under UN control, for example, long-term plans for Iraq's power sector. No country would accept this, let alone Iraq. Yet the US could well argue that the UN needs to know exactly what Iraq imports and how it spends its enlarged revenue.

But even were all this managed relatively smoothly, the problem has ceased to be about dealing with Iraq *in isolation*. In good part because of US failure to advance Middle East peace, and also because Washington has mixed up UN sanctions on Iraq with its own sanctions on Iran, Mr Saddam has emerged from the crisis no longer as the regional pariah he was. The *status quo ante* is no longer available. To recover credibility in the Middle East the US needs to develop a more coherent policy towards the region as a whole.

Yesterday's sigh of relief across the Arab world was accompanied by the unison demand that the US now put pressure on Israel to start honouring its commitments to the Palestinians under the Oslo accords Washington has underwritten. "No doubt the stress on the peace process will be increased at all levels by all means," said Yassir Arafat, the Palestinian leader. If the US will not do it, Saudi Arabia suggested, the Security Council should "embark with the same determination and firmness in pushing the Middle East peace process".

While this reflects a probably impractical view of what the UN can do, it is also a coded message from a US ally that it is time Washington demonstrated its good faith in dealing with the Arabs.

Not least among the explanations for this message is the consensus among Arab leaders that containing Mr Saddam is now more than anything else a political problem. Leaders across the region believe US action will always fall short of removing the Iraqi leader or destroying his weapons capability; to them, US intervention servesmerely to increase Mr Saddam's attraction to their peoples.

A first wave of anti-American demonstrations and riots broke out last week from Istanbul to southern Jordan, and would doubtless spread were air strikes to go ahead, however draconian the security to prevent them.

That first hint of popular rebellion is likely to see redoubled efforts by Arab states to change US policy towards the region. What they expect, backed by Europe and Russia, is a new push on the peace process and a policy of engagement with Iran, to try to encourage the reformists around Mohammed Khatami, elected president in a landslide last year.

The European Union, institutionally impotent during the Iraq crisis, yesterday showed it is willing to ignore US attempts to isolate Iran by restoring bilateral ministerial contacts with Tehran. Arab leaders stress the urgency of treating the region as a whole, without which, they say, the US will play into the hands of the Islamists and the Iranian hardliners who inspire them.

The UN may be flavour of the week, but few in the Middle East believe it can substitute for US leadership.

· OBSERVER ·

Willie power

■ Not for Sir William Purves, the bluff Scot who rarely missed a bargain, an emotional farewell. Presenting HSBC's last annual results before stepping down in May, the 66-year-old chairman was his usual brisk and businesslike self.

"I don't feel I've been sitting on a throne, so I won't be leaving one," he told his Hong Kong audience.

Modesty notwithstanding, Purves really is regarded as a titan of the world banking game. But, even as the retirement clock ticks away, the former soldier – who over the years has turned his bank from a powerful Asian player into a global business – has resisted the temptation to go out with a bang.

Other captains of high finance might have chosen to cap their career by squeezing out every last pound of profit but the cautious Purves announced a host of provisions against Asia's economic crisis. HSBC may be the world's most profitable banking group, but pre-tax profits were held just short of the £5bn mark.

In his time, the chairman picked up bargains aplenty, from Midland Bank to last year's acquisition of basket case Banco Bamerindus in Brazil. Having steered the Hong Kong-headquartered outfit through the return to Chinese sovereignty, he leaves HSBC well placed to manage another smooth transition: chief executive John Bond, 56, will take the chair, making way for 54-year-old Midland Bank boss Keith Whitson, another HSBC veteran.

As for Purves, he's looking forward to a weekend off after working what seems like a seven-day-a-week routine for decades. Out of sight, however, will not be out of mind. His prudent shadow should loom over HSBC expense accounts for years to come.

Right chemistry

■ Akzo Nobel was a model of decency yesterday as DSM and Gist-Brocades, two other Dutch chemical companies, announced their merger on the day it presented its annual results.

Akzo chairman Cees van Lede started his press conference in Arnhem by congratulating the sweethearts, who were at that moment unveiling wedding plans in Amsterdam. And to ensure that journalists did not feel cut off in the eastern Dutch city, Akzo not only handed out copies of DSM's terms for the deal but provided a tape recording of the rival event.

The timing of the takeover was, to be fair, not intended as a snub. News of the deal leaked on Friday, and the companies could not really just go on repeating their nebulous initial response that they were exploring "possible forms of co-operation".

The Arnhem outfit had reason to be cheerful: its profits were up 23 per cent, and it remains nearly twice the size of DSM and Gist combined. So the management didn't have to revert to Remeron, the new post-Prozac remedy referred to by analysts as Akzo's "happy pills."

Selling out

■ France's Socialist government is tying itself in knots trying to pretend there are no U-turns on privatisation policy.

Jean-Claude Gayssot, the Communist transport minister who is not renowned for his advocacy of the sale of state assets, yesterday backed "an opening of the capital" of Air France – ultimately of up to 47 per cent – to employees and other investors. It was not, of course, a privatisation.

Ministers conceded that the operation would need approval by the state's, er, privatisation commission, but then came up with a cunning way round that potential embarrassment. Economics, finance and industry minister Dominique Strauss-Kahn announced that it would be renamed the commission for participations and transfers. Rolls off the tongue.

Chip's choice

■ Moving to London has meant serious sacrifices for Chip Kruger, co-head of NatWest Bank's debt markets operation alongside fellow-American Gary Holloway. "Back in Connecticut, Gary and I didn't wear socks in the summer," he recalls with nostalgia.

Even so, Kruger seems to be enjoying playing Mr Casual among the City of London's starched collars. Observer hears he's taken to listening to popular classics in his office and lets staff wear whatever they want "within reason". Unlike one employee who explained he'd gone back to coat and tie because his wife didn't believe he had a job, Kruger and Holloway think an open-necked shirt, black cardigan and loafers are formal enough.

During last year's options crisis, which led to his elevation at NatWest, Kruger turned up at the bank's grand headquarters wearing a flannel shirt. "Let me walk you out of here," one of NatWest's butlers offered after the meeting, "so they don't arrest you."

The Financial Times

100 years ago

New Colombian President
The Consul-General of the United States of Colombia has communicated the following despatch to Reuters Agency. The election took place on the first Sunday of the present month. Dr. Manuel Antonio Sanciamente was elected President of the Republic and Dr. Jose Manuel Marroguen Vice-President. Public peace in Colombia is now definitively assured, the electoral struggle which threatened at one time to develop into civil war having now ended. There is a great improvement in business generally.

50 years ago

French/Swiss Dispute
Basle, Feb 23. The French decision to stop imports from Switzerland is believed, in the absence of official Swiss explanation, to be the direct result of Switzerland's refusal to grant France a new loan. It appears that, despite devaluation, France fears an adverse trade balance with Switzerland in 1948. In 1947 the balance was favourable for France to the extent of Sw.Fcs 150 millions.

FINANCIAL TIMES
Tuesday February 24 1998

Japan grants Russia $1.5bn loan as relations improve

By Michiyo Nakamoto in Tokyo and Chrystia Freeland in Moscow

The Japanese government has agreed its first loan to Russia not tied to purchases from Japanese companies.

The $1.5bn loan – to be made over the next two years – is a further sign that the two countries are developing warmer links despite a lingering territorial dispute.

It is one of the largest loans to be made by the Export-Import Bank of Japan and was announced yesterday in Moscow by Keizo Obuchi, Japan's foreign minister. Much of the money is expected to be used to build housing for decommissioned Russian army officers.

Russia and Japan have gradually been rebuilding a relationship that has never fully recovered from the second world war. The two have yet to sign a peace treaty to mark the end of that conflict – largely because of their unresolved dispute over the Kurile Islands.

Known as the Northern Territories in Japan, the islands were occupied by the Soviet Union in 1945. Japan continues to press its claim to them and the clash has tarnished relationships and made Japanese economic aid to Russia a politically charged issue. The loan follows other indications of a steady improvement in Japanese-Russian relations following a breakthrough Japanese-Russian summit in the Siberian city of Krasnoyarsk last November, when Russia's president Yeltsin said the two countries should work to conclude a peace treaty by 2000.

At the weekend, Mr Obuchi and his Russian counterparts signed a landmark agreement to allow Japanese fishermen access to the waters around the disputed islands.

The two countries also agreed that Mr Yeltsin would visit Japan from April 11 to 13 for an informal meeting with the Japanese prime minister.

Other initiatives since the summit include a Japanese pledge to reconstruct rail networks in Siberia and measures to relax conditions under which Japan will extend export credit to Russian companies.

Japan is also supporting Russia's effort to participate fully in the Asia Pacific Economic Co-operation forum.

Japan has already provided Russia with export credits totalling $1.2bn through the Ex-Im Bank to cover exports from Japan, and with a $2.9bn credit line through the Ministry of International Trade and Industry.

US insurer claims lawyers and health professionals coached 'victims'

Allstate sues over car crash frauds

By John Authers in New York

A group of 45 Los Angeles lawyers and medical professionals was yesterday accused of defrauding the largest motor insurer in the US through a series of fake car accidents.

The insurer, Illinois-based Allstate, yesterday launched a $107m lawsuit against the group which includes attorneys, health care providers and chiropractors, and vowed to stamp out fraud with "every legal means at our disposal".

The company alleges that the people involved staged accidents by driving in front of cars insured by Allstate and unexpectedly slamming on the brakes.

The drivers then exaggerated the spinal and neck injuries which resulted, with the help of medical professionals who coached the "victims" to exhibit convincing symptoms of whiplash when claiming from the insurer.

Frank Millar, Allstate's head of operations in southern California, said: "Unscrupulous lawyers and medical professionals played an instrumental role in this auto insurance fraud ring.

"We are serving notice that we will use every legal means at our disposal to put anyone out of business, no matter what his or her profession, who through fraud is hampering our ability to deliver the lowest rates."

Allstate, which insures more than 20m customers, said it had obtained confessions from 78 former claimants that their claims had been bogus, and had received a deposition from a woman who claimed to have participated in 5,000 staged motor accidents.

The lawsuit is part of a growing trend in the industry to tighten its defences against fraud. Figures on the overall scale of the problem are difficult to pin down. However, the New York-based Insurance Services Organisation suggests that the broad estimate of $20bn per year in fraudulent claims for all property and casualty insurance, excluding life and health policies, is reasonably accurate.

It cites figures from Conning, a Connecticut-based broker specialising in insurance, which estimated the total cost of fraud in 1994 at $6.5bn for auto liability insurance, and $2.7bn for auto physical damage pay-outs.

Workers' compensation, with $5.7bn in fraudulent claims, was the other line of business seriously affected.

This is Allstate's second significant attack on a suspected insurance fraud ring. In June last year it filed civil actions against more than 700 people in New Jersey suspected of taking part in more than 860 staged accidents. It claimed New Jersey's insurance regulations, which involve high levels of mandatory coverage and have become a big political issue in the state, had "the unintended consequence of encouraging fraud".

Chile shores up currency as trade deficit widens to $453m

By Imogen Mark in Santiago and Stephen Fidler in London

Chile's central bank stepped in yesterday to shore up the country's currency following the publication of figures showing a sharp widening of it's trade deficit at the beginning of the year.

The unexpected size of the deficit – in an economy long regarded as a model for others – reflected a collapse in export earnings because of the Asia crisis and a boom in imports of consumer goods.

The central bank reported a deficit of $453m in January, compared to a surplus of $82m in the same month last year. Exports dropped to $1.23bn – down 19 per cent on January 1997 – and imports totalled $1.68bn, up 17 per cent.

The deficit for the whole of 1997 was a little more than $1bn.

Imports of consumer goods rose 41 per cent, reflecting the strong growth in domestic demand in the second half of last year.

Last month, the central bank hoisted interest rates by 2 percentage points, in an attempt to curb the spending boom. But critics say the bank prematurely lowered rates during the third quarter, allowing the economy to grow too strongly.

Carlos Massad, the central bank governor, said in London yesterday that last year's modest cuts in rates could not alone explain the 10 per cent growth in demand last year.

He said Chile's current account deficit – the balance of trade in goods and services added to remittances abroad of interest and dividends – would equal or exceed 5 per cent of gross domestic product this year.

This was too high to be sustainable for a long period. But it was manageable given large foreign currency reserves of 20 per cent of GDP and Chile's small volume of short-term debt.

The drop in export earnings was a result of external factors: Chile's exports are largely raw materials like copper and wood pulp, which have been hit by the fall in commodity prices since mid-1997, partly due to the Asian crisis.

In the case of copper, prices were down 30 per cent on the previous January, and total copper export revenues had fallen 21 per cent. Forest products, another major export sector, are also heavily dependent on Asian markets.

Another factor affecting January figures was unusually low fruit exports.

The central bank intervention succeeded in moderating the fall of the peso, but it remained below Friday's closing levels.

Up to 47% on offer in Air France

Continued from Page 1

previous loans, and other investors and employees can convert financial instruments already issued into shares. That will cut state control to a minimum of 53 per cent.

The proposals are to be incorporated into broader legislation on economic affairs to be debated by parliament in May, which could lead to a sell-off before the autumn.

Mr Gayssot said that Air France would report a profit of FFr1.7bn for 1997, and that over the next five years it would invest FFr40bn in new aircraft and on other projects.

The investment banks Lazard and Société Générale are acting as advisers to Air France on the sell-off, and Morgan Stanley and Banque Indosuez for the French government.

THE LEX COLUMN

HK, OK

Is it safe for investors to return to HSBC? Some already have, though this year's 33 per cent bounce is as much a general play on Hong Kong as a specific punt on the banking group. Moreover, it is still 25 per cent off last summer's peaks. Yesterday's results did nothing to confirm the doomsters' view that Asia will produce a bottomless pit of bad debts. But they did not entirely dispel doubts either.

With £120bn ($200bn) of Asian assets, a £175m special general provision looks modest. The concern is that the worst lies ahead. There are no prizes, of course, for being proven recklessly optimistic. But the bank would also have been mindful how a really bad number might have scared off the Hong Kong market. The truth, of course, is that there can be no certainty – even the fanciest models are at a loss when dealing with the unprecedented. If there is comfort to be had, it comes from the fact that HSBC's business in Asia other than Hong Kong is pretty small – not something it would previously have boasted about.

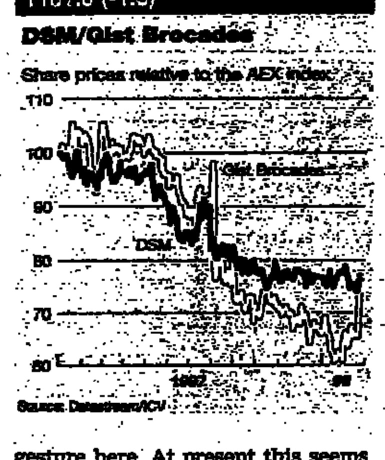
Still, it requires considerable pessimism to be other than positive over the medium term. Asia will be difficult for some years, but the chances of building the business both organically and by acquisition are much better than a year ago. Meanwhile, HSBC has a powerful engine for growth in Latin America, while Midland is performing well in the UK. On a multiple of only 14 times 1998 earnings, a 20 per cent discount to the market, it offers compelling value.

Air France

The French government is becoming adept at continuing with its right-wing predecessor's privatisation programme without infuriating its communist partners. The technique is to come up with a small headline number – 20 per cent in this case – for the amount to be sold to outsiders, reserve a tranche for employees and hang on to control. But balancing political considerations with Air France's business interests is a tricky act. Take the last stipulation, keeping a majority stake. This limits the group's attractions to outside investors because of worries about political interference.

Such tight control over the share sale also leaves little scope for fund-raising for the group: a FFr1.5bn ($250m) convertible bond is the one

FTSE Eurotop 300 index: 1101.0 (-1.3)



gesture here. At present this seems of little importance. Air France, the infamous recipient of FFr20bn state aid in the past, has been restored financially. In the first half of 1997-98, it trebled net profits to FFr1.8bn on FFr31bn sales. Further improvements are forecast. The fly in the ointment is that the architect of the turnround, Christian Blanc, quit over the restricted flotation. His successor, Jean-Cyril Spinetta, will need to prove both that the profit momentum can be maintained and that politics does not put off potential partners. Progress on the former should be helped by securely linking employees' share entitlements to pay curbs. Reassurance on the latter score could come through the participation of partner airlines in the flotation.

DSM

DSM's acquisition of Gist-Brocades is the latest move within a European chemicals sector determined to move up the food chain from commodities to fine chemicals. The deal between the two Dutch groups certainly reduces DSM's dependence on industrial chemicals, from nearly half its sales to 40 per cent. The market is looking ahead to a cyclical downturn in part of the business, which has held back DSM's shares. As a counterweight, the company has trebled fine chemicals sales over the past three years. This acquisition will more than double that segment's contribution to Fl 3.7bn ($1.8bn), 25 per cent of the combined group's turnover.

The bid looks well timed. Gist-Brocades' shares were knocked by a profit warning in August and the offer, worth just over Fl 66 a share, is well below the peak price of nearly Fl 80. But the reason for the warning – penicillin prices were hit by extra Asian capacity – is a reminder that fine chemicals are not immune from the vagaries of the market. At just over 14 times 1997 operating profits, the deal is in line with several other of this year's deals – none of them cheap. This one has the virtue of clear scope for improving operating margins from 8.5 per cent of the Fl 2.2bn sales.

But whether DSM will have a free hand in shaking up Gist-Brocades is questionable as it is keeping senior incumbents on board. If DSM's management copes well with the new challenges, the Fl 50m of synergies should prove conservative, vindicating the deal.

Mexican telecoms

One year on from deregulation, Mexico's telecommunications market is in a mess. There is little sign of the vigorous competition and bountiful investment an open market was supposed to bring. The two leading foreign entrants – MCI and AT&T of the US – are complaining bitterly about being overcharged by Telmex, the former monopoly telephone company. MCI's local joint venture has frozen $900m of further investment in protest.

The US operators have half a case. The fees they have to pay Telmex to route their long-distance calls through its local lines are exorbitant by world standards. Including a special surcharge, they pay around 23 US cents a call, against a connection cost of perhaps half a cent. But these fees were set this high to help Telmex finance expansion of its local network. And they were agreed in April 1996, so MCI and AT&T can hardly claim ignorance. The reason they are protesting loudly now is that they have won less market share and lost more money than expected.

Even so, their investment is too badly needed for the Mexican government to ignore. And Telmex will have to give ground if it wants them to stop blocking its entry into the US. A rate renegotiation is therefore likely. Cutting rates now to the level planned for 2000 could cost Telmex almost $500m – just 7 per cent of last year's revenues but, given the fat margins on such fees, far more of its profits.

Additional Lex comment on UK housing, Page 25

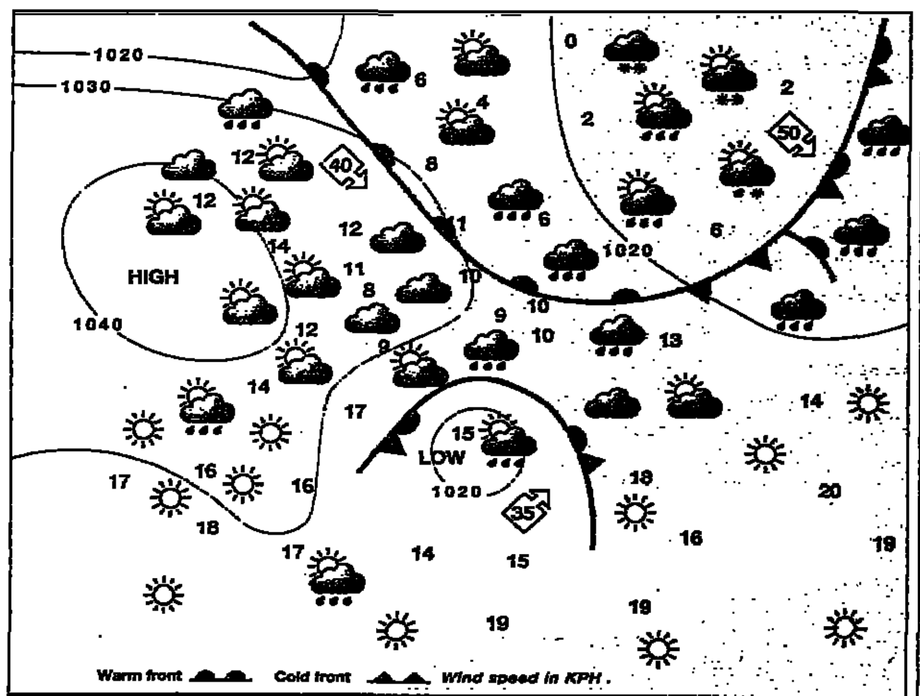
FT WEATHER GUIDE

Europe today

Spain, Portugal and Greece will be mainly sunny, but the central Mediterranean will be cool and showery. North-west Europe will be largely dry with some sunshine developing, although north-east France, the Low Countries and western Germany may stay cloudy with local drizzle possible. From eastern Germany to Hungary, it will be cloudy with a weak front bringing some patchy light rain, but the Balkans will stay largely dry and bright. Meanwhile northern and eastern Scandinavia will be cold with snow showers, but Denmark and southern parts of Norway and Sweden will be mild with the west having light rain.

Five-day forecast

High pressure will keep western Europe mostly dry and mild for a while but it is going to turn colder by the weekend. Central and eastern Europe will have a good deal of fine, mild weather, but Scandinavia will stay unsettled with the south having lower temperatures from Friday.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum/	Belfast	Cloudy 12	Chicago	Fair 45	Glasgow	Drzzl 12	Manila	Fair 32	Seoul	Fair 10
	Celsius/	Belgrade	Fair 15	Cologne	Rain 12	Hamburg	Rain 11	Melbourne	Sun 31	Singapore	Thunder 33
Abu Dhabi	Sun 24	Berlin	Rain 11	Dakar	Sun 33	Helsinki	Snow 0	Mexico City	Sun 26	Stockholm	Fair 4
Accra	Sun 31	Bermuda	Thunder 23	Dallas	Fair 23	Hong Kong	Fair 17	Miami	Sun 24	Strasbourg	Cloudy 10
Algiers	Thunder 17	Bogota	Thunder 20	Delhi	Fair 22	Honolulu	Fair 27	Milan	Fair 16	Sydney	Sun 27
Amsterdam	Fair 12	Bombay	Sun 30	Dubai	Sun 27	Istanbul	Sun 15	Montreal	Sleet 2	Tangier	Fair 18
Athens	Sun 18	Brussels	Cloudy 11	Dublin	Fair 12	Jakarta	Thunder 31	Moscow	Cloudy 2	Tel Aviv	Fair 19
Atlanta	Sun 19	Budapest	Fair 10	Dubrovnik	Shower 18	Jersey	Cloudy 13	Munich	Shower 9	Tokyo	Shower 9
B. Aires	Fair 27	C.hagen	Drizzle 8	Edinburgh	Fair 14	Johannesburg	Sun 24	Nairobi	Fair 28	Toronto	Rain 2
B.ham	Fair 13	Cairo	Fair 20	Faro	Sun 18	Karachi	Fair 27	Naples	Shower 16	Vancouver	Rain 9
Bangkok	Sun 35	Caracas	Sun 29	Frankfurt	Drzzl 11	Kuwait	Fair 20	Nassau	Sun 25	Venice	Fair 15
Barcelona	Sun 17	Cardiff	Fair 12	Geneva	Fair 10	L. Angeles	Fair 16	New York	Rain 5	Vienna	Fair 9
Beijing	Fair 8	Casablanca	Cloudy 20	Gibraltar	Sun 17	Las Palmas	Fair 26	Nice	Fair 17	Warsaw	Rain 6
						Lima	Sun 31	Nicosia	Sun 20	Washington	Cloudy 9
						Lisbon	Sun 17	Oslo	Fair 6	Wellington	Shower 17
						London	Fair 14	Paris	Fair 12	Winnipeg	Cloudy 1
						Lux.bourg	Drzzl 8	Perth	Sun 30	Zurich	Fair 9
						Lyon	Fair 10	Prague	Drzzl 10		
						Madeira	Fair 21	Rangoon	Fair 34		
						Madrid	Fair 16	Reykjavik	Rain 7		
						Majorca	Drzzl 16	Rio	Thunder 32		
						Malta	Fair 15	Rome	Shower 14		
						Manchester	Cloudy 13	S. Frsco	Fair 14		

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Warning bells on Wall Street

Wall Street has barely waited for the US reporting season to end before powering to new heights. The feeling is that most big US companies met earnings expectations in the final quarter of 1997, and that international financial turmoil is having only a temperate effect. But companies' forward-looking statements and assessments of how the recent turmoil might affect them have led to significant downgrading of future earnings forecasts. Page 21

Schh... shareholder value

It looks as if the City of London is taking seriously the commitment to shareholder value of the new Cadbury Schweppes management team, after the announcement that the UK confectionery and soft drinks group is to establish a joint venture to buy two Mid-west bottlers. In John Sunderland, chief executive (left), the group has a true believer in value management. Page 26

Doing up the dairy in East Germany

Mattias Beuster is proud of his milking parlour. It might not seem much to those accustomed to the large, gleaming dairies seen in other parts of the European Union. But, says Mr Beuster, when he first came to the farm he manages in the former east German state of Brandenburg, the cow sheds "looked like a 18th century painting". Page 30

Silver prices expected to stay buoyant

A resurgence in investment interest, combined with continued strong levels of industrial consumption, will keep silver prices buoyant through the rest of 1998, according to the latest annual silver market survey by CPM Group, a New York-based consultancy and research company. Page 30

Danes unfazed by poll surprise

Denmark's torpid stock market took in its stride last week's surprise call by Mr Poul Nyrup Rasmussen, the prime minister, for an election on March 11. Investors, who have seen the leading share index rise by a measly 3 per cent this year, have their eyes on other events. Page 40

Companies in this issue

Market Statistics http://www.FT.com

Investcorp outbids Quebecor

Group offers $418m cash for UK printer

By Virginia Marsh

Investcorp, the Bahrain-based investment group, yesterday unveiled plans to create the UK's largest independent commercial printing group and said it might make other acquisitions in the sector in continental Europe.

The group – best known for its investments in luxury goods companies such as Gucci – announced a recommended £250m ($417.5m) cash offer, at 345p a share, for Watmoughs, far outbidding Quebecor of Canada which has made a hostile offer for the UK printer. Investcorp also said it was buying, for an undisclosed sum, Watmough's larger rival British Printing Company, a private company once owned by the late Robert Maxwell. Its offer is thought to value BPC, which is believed to have substantial debts, at £280m-£300m.

Together the two companies, with combined annual sales of about £560m, have about 20 per cent of the UK's colour commercial printing market.

"The European printing market is highly fragmented and we believe this group can be a very viable force in that market," said Richard Warner, a member of Investcorp's management committee. "The two companies fit together very well and we believe they have strong growth prospects."

Analysts said the move was a challenge to Quebecor, one of North America's largest commercial printers, which is also seeking to expand in Europe.

Yesterday's announcements were made within an hour of Quebecor receiving approval from UK regulators for its £186m offer, at 257p a share, for Watmoughs. Analysts said that, although Quebecor's offer was not referred to the Monopolies and Mergers Commission, the UK competition authority, the Investcorp offers probably would be. The combined group would control more than 90 per cent of UK gravure capacity, used for long runs of quality printing.

Typically, Investcorp – which is bidding for Watmoughs through its Webinvest subsidiary – restructures the companies it buys and then floats them in two to five years. Mr Warner said this was a possible route for Watmoughs and BPC but added Investcorp sometimes held investments for much longer.

The combined companies would be headed by Tony Rudston, the BPC chief executive, who has a reputation for cost-cutting. Investcorp, which is being advised by Lazards, said that although cost-cutting was not the rationale for the deal, there was scope for savings.

BPC, which has tried to float on more than one occasion in recent years, made operating profits of £24.5m on sales of £320.3m last year.

Watmoughs announced that according to management accounts it made pre-tax profits of £21.6m (£23.6m) on turnover of £312.4m (£221m) last year, some 18 per cent ahead of average market expectations. The shares rose 26½p to 345p, up from 197½p before Quebecor announced its offer last December.

Banking group prepares defence against uncertainty in Asia

Group chairman William Purves on Hong Kong yesterday

HSBC increases bad debt provisions to $1bn

By George Graham, Banking Editor

HSBC Holdings, the international banking conglomerate whose interests range from Midland Bank in the UK to HongkongBank in China, increased its bad debt provisions last year by 55 per cent to £617m ($1bn), including a £175m special charge to cover the group against the uncertainty in its core Asian markets.

Sir William Purves, group chairman, said the economic difficulties in Asia had led to "a deterioration in credit quality, the full impact of which is only beginning to emerge".

In his last set of results before he retires in April after 44 years with HongkongBank, Sir William reported pretax profits of £4.97bn in 1997, up 10 per cent.

During his 12 years as chairman, the group has expanded dramatically from its original base in Hong Kong.

HSBC spread into the UK with the takeover of Midland in 1992 and into North America and Canada with the acquisitions of Marine Midland and Bank of British Columbia.

Last year the group spent $2bn buying stakes in banks in Brazil, Mexico and Argentina.

The UK and the Americas contributed £2.28bn to pretax profits last year, half of HSBC's total, offsetting much slower growth in Hong Kong and a 46 per cent drop to £354m in profits from the rest of the Asia-Pacific region.

John Bond, chief executive, said HSBC would start to report its profits in US dollars next year. The bank will declare its dividend in dollars, although shareholders will be able to receive it in sterling, Hong Kong dollars or scrip.

Most of HSBC's business is conducted in the dollar or in currencies linked to it, such as the Hong Kong dollar. Standard Chartered, another UK bank with most of its activities in the Far East, is also considering a move to dollar accounts.

HSBC made £326m net new specific provisions on non-performing loans, up only slightly from £320m in 1996, but this masked a decline in provisions for the UK and sharp rises for Hong Kong and the rest of Asia.

Ordinary general provisions also rose by 71 per cent to £216m to cover the increase in customer lending, with the £175m special provision added to reserves as a precautionary measure.

Mr Bond, who will take over as chairman from Sir William later this year, said the group's exposure to Indonesia, Thailand and South Korea – the three countries with IMF economic rescue packages – totalled £5.3bn, £1.4bn of it in local currency loans.

He said the group would look at acquisitions that fitted its strategy, but in most cases the prices being asked for financial companies offered little prospect of matching HSBC's current return on equity of 21 per cent.

While HSBC's results and loan loss provisions yesterday were generally in line with forecasts, analysts remained sharply divided over the group's outlook.

Some noted Sir William's caution over the deterioration in credit quality and predicted a sharp rise in 1998 provisions.

HSBC's share price oscillated yesterday, with the sterling shares trading as high as 1830p but closing 3p higher on the day at 1775p.

Observer, Page 17
Lex, Page 18
Asia crisis, Page 22

UK's Coda to be part of Baan software group

By Paul Taylor

Baan, the Netherlands-based business management software group, is to acquire Coda Group, the UK-based accounting and financial software group, in a £52.9m ($87m) deal that reflects further consolidation in the international business software market.

The agreed all-paper deal represents an important acquisition for Baan, a leading player in the market for Enterprise Resource Planning (ERP) software used by companies to manage and plan business functions.

It will provide the Dutch group with a strong stand-alone financial software product and enable it to strengthen the financial component in its "Baan Series" ERP product suite.

Baan competes with SAP of Germany and Oracle of the US in the rapidly growing ERP market, which is increasing at about 35 per cent a year. *The gain partly reflects the* globalisation of international business and the premium this has placed on information technology systems that enable managers to control sprawling empires effectively.

For Coda, which saw its share price fall sharply last month after it reported a disappointing £1.8m loss for last year - well below market expectations – the deal will provide access to much greater research and development resources and international marketing muscle.

"Coda will prosper more quickly and with more certainty under Baan's ownership," said Robert Brown, *Coda's chief* executive.

The company, which initially specialised in the mainframe software market, was floated in 1994 at 235p a share. It plunged to an £8m loss in the same year and recovered to a £1m profit in 1995 before sinking back into losses – partly reflecting its attempts to break into the US market.

Coda is the latest in a series of relatively small UK-based software product companies to be acquired by overseas bidders, and the second this month. Richard Holway, an independent industry analyst said: "Clearly, we are in the midst of another period of *frenzied consolidation.*"

Baan is offering 0.695 new Baan shares for each Coda share, which values Coda shares at 190p each, a premium of 15.5 per cent over the closing price on Friday.

Baan said it had undertakings from shareholders representing more than 50 per cent of Coda, including General Atlantic Partners investment group which holds a 18.9 per cent stake.

Coda's share price gained nearly 13 per cent to close at 185½p, while Baan closed at Fl 91.20, down Fl 0.80.

Brussels concerned over Reed-Wolters merger

By Emma Tucker in Brussels and John Gapper in London

European Commission anti-trust regulators have identified a range of competition problems in their initial investigation into the planned £20bn ($33bn) publishing merger between Reed Elsevier and Wolters Kluwer.

Their main concerns over the merger, which would create one of the world's largest media groups, are over the dominant positions the company would have in aspects of professional publishing – *notably law, medicine and science.*

The commission, which has until the end of April to finish its inquiry, is concerned about their plans to develop their on-line database business. It believes there is a risk they could gain a decisive advantage in a new market.

The companies could be forced to divest some overlapping businesses and the objections could also limit the expansion of Reed Elsevier's Lexis Nexis online database. As Brussels prepares to send out a detailed statement of *objections to the companies,* people within the commission said the merger would have the most marked impact in the UK, France, Italy and the Netherlands.

They said the commission was examining overlaps between the activities of the companies in the areas of worldwide academic publishing, plus national legal, business, accountancy, tax and educational publishing.

Once they have received the statement of objections, they are expected to suggest changes to the deal to win reg*ulatory clearance. If they fail* to do so, the merger could be blocked, although this is rare.

The deal is also being examined by competition authorities in the US. The merger raises widespread issues because of the strength of the groups in US specialist publishing.

One of the biggest problems confronting the commission has been deciding how to define affected markets. Brussels is understood to favour a broad definition of markets such as tax, agriculture and medicine, which could poten*tially cause difficulties for the* merger. It also has to assess whether the markets are national or international.

The companies declined to comment on the investigation. One concern they may have if the commission seeks to impose large safeguards would be that the benefits to shareholders could be diluted.

Reed Elsevier, the operating company of Reed International of the UK and Elsevier of the Netherlands, has just divested its IPC consumer magazines division to concentrate on specialist publishing.

US investors target low-value Asia assets

By Jonathan Ford

US investors are creating large "recovery funds" to invest in distressed Asian companies and other assets in the region whose value has tumbled in recent months.

Bankers Trust is reportedly putting together a $1bn fund to invest in distressed assets across the Asian region, including Japan.

American International Group (AIG), the insurer, plans to raise $1bn in partnership with other institutions to invest in troubled Asian companies.

These funds, among the first to be raised specifically to take advantage of the Asian crisis, will have broad remits to *invest in such diverse instru*ments as equity, bonds and distressed bank loans.

Bankers Trust has refused to confirm its fundraising plans, but is understood to be seeking industrial partners to provide sectoral expertise in evaluating investment opportunities.

Maurice Greenberg, AIG's chairman and chief executive, said its fund would invest in any industry "we think has opportunity".

Observers believe other *institutions are* likely to come forward soon with similar plans.

Recovery funds are expected to target two main areas: the acquisition of loan portfolios from troubled Asian banks that are looking to shrink their assets; and the purchase of equity stakes in troubled Asian companies with a view to restructuring and selling them on as markets recover.

US interest in potential acquisition targets has risen as Asian governments have lifted restrictions on foreign ownership of regional companies.

Demand for such investments among US institutional investors and hedge funds is thought to be keen.

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Krupp	319	+	9.5
Falls			
AMB Aach	201.1	-	3.9
NEW YORK ($)			
Rises			
Nike	47⅞	+	2¼
Falls			
Ackerley	21⅛	-	2¼
LONDON (Pence)			
Rises			
Bass	1016	+	56
Falls			
AB Foods	609	-	21
TORONTO (C$)			
Rises			
Enertec Res	10.50	+	0.90
Falls			
Cott Corp	12.75	-	1.00
00			-
PARIS (FFr)			
Rises			
Nat de Nvgtn	129.8	+	11.8
Falls			
Mltr Amis	33	-	2.95
TOKYO (Yen)			
Rises			
Nippon Sanso	145	+	20
Falls			
Showa Rubber	112	-	13
HONG KONG (HK$)			
Rises			
Golden Harvest	0.94	+	0.23
Falls			
HKR Intl	5.2	-	0.2
BANGKOK (Baht)			
Rises			
Somaggi Ins	65	+	15

New York and Toronto prices at 12:30.

Analysts put Waste charges at $2bn

By Nikki Tait in Chicago

Waste Management, the largest rubbish haulier in the US, is likely to take charges of more than $2bn against its 1997 earnings, when the figures are released today, analysts say.

The Chicago-based company was dealt a blow late last year when Ronald LeMay, its former chief executive, quit after only three months in the job – with no explanation provided.

This prompted fears that he had come across serious accounting problems and, since then, Waste Management has instigated a comprehensive review of its North American operations, assets and investments.

The company warned last month that it intended to restate reported earnings from 1992 to 1997, and revise various items, including equipment depreciation and landfill cost accounting. It also cautioned that there would be a "material charge to earnings and stockholders' equity".

But analysts say the company's statements in recent weeks have led them to lift the size of the potential charge from about $1bn to $2bn-plus. "I would expect the number to be larger rather than smaller," said Mark Sulman, at Donaldson Lufkin & Jenrette.

While much of the charge may reflect a readjustment of past calculations, analysts say they will also be looking to assess the implications of the write-downs on the business going forward.

"The key is going to be in the detail," Mr Sulman suggested. Waste refused to comment on analysts' predictions ahead of the formal announcement, which is due after the close of New York trading today.

If the charges are as high as analysts expect, this may help explain the company's apparent difficulty in recruiting a replacement for Mr LeMay, who was well-regarded and returned to a top-level position with his former employer, the telecoms group Sprint.

Crains, the Chicago business publication, recently suggested Norman Blake, who turned round the USF&G insurance group, as a possible contender – but analysts said that even if the suggestion were correct, bringing someone in from so far outside the waste industry would imply that more obvious candidates had turned down approaches.

$300m buy for Network Associates

By Nicholas Denton in San Francisco

Network Associates, the US security software house, yesterday sought to distance itself from competitors by making its third significant acquisition in less than six months.

The company, formerly McAfee Associates, said it was paying about $300m for Trusted Information Systems, which makes the "firewall" software that controls the information that comes in and out of computer networks.

The deal, which will give the enlarged Network Associates a market capitalisation of about $3.5bn at its current share price, underpins the company's claim to be the largest security software company.

Trusted Information shares leapt $6¾ to trade at $19⅝ by midday on Wall Street. Network Associates shares were up $¼ at $62¼.

Network Associates is the product of the $1.3bn merger last October of McAfee, which developed software to detect and destroy computer viruses, with Network General, another security software company.

Network Associates, whose software is used by 80 per cent of the largest companies in the US, then paid $35m for Pretty Good Privacy, an encryption software house, which wrote programs to scramble data such as electronic mail messages.

The security software company is responding to the preference of large corporate customers for a single integrated answer to threats to the security of networks, which are increasingly central to their business.

However, analysts say clients may go further, and buy both networking equipment and security software from the same provider. This would benefit companies such as Cisco Systems, the leading maker of routers, which recently acquired WheelGroup, a security software provider.

AIG boosted in bid battle

By John Authers in New York

American International Group yesterday believed it had won a crucial regulatory victory in its increasingly bitter battle for control of American Bankers Insurance, after the attorney general for the state of Arizona warned Cendant, which is also bidding for the company, that it may not be allowed to vote with proxies which it is buying.

AIG announced an agreed $2.2bn bid for ABI, the largest US credit insurance company, last December. Last month, Cendant, the international direct marketing company, countered with an unsolicited $2.7bn offer, coupled with a lawsuit.

AIG has since responded with its own lawsuit alleging misinformation by Cendant. The chief executives of both companies – Maurice "Hank" Greenberg of AIG and Henry Silverman of Cendant – have made it clear they intend to win ABI. Both intend to use the acquisition to market credit insurance globally.

Competitive bids are unusual in the US insurance sector, because of the regulatory hurdles involved. The battle between the two companies is now complicated by procedural difficulties, as US insurance mergers must be cleared separately in each state in which the affected companies operate.

ABI meets next Friday to hold a proxy vote on AIG's bid. Cendant has written to all ABI shareholders urging them to vote against.

It has also started a campaign to solicit proxies for that meeting. However, regulators in Arizona, the first state to rule on the issue, said that if Cendant obtained enough proxies to vote 10 per cent or more of ABI's voting stock, it would be deemed to have acquired control.

Under Arizona insurance law, a company cannot acquire control of an insurer without first gaining approval from the state regulator. In a letter to Cendant, Arizona's regulators said there would be "significant ramifications" for Cendant if its proxies exceeded the 10 per cent threshold.

If this happened, it said, "the proxies may not be counted for quorum purposes at the shareholders' meetings, and they may not be voted".

It added that the failure to obtain approval in advance would be a misdemeanour under Arizona law.

Cendant has been given until tomorrow to respond.

AIG had also written to four other states' insurance regulators complaining about Cendant's attempt to acquire proxies.

Hank Greenberg: may be closer to control of ABI

Banking shake-up continues with $2.3bn deal

By John Authers in New York

The wave of consolidation in US commercial banking continued yesterday with the announcement that Union Planters, the biggest bank in Memphis, Tennessee, was buying Missouri-based Magna Group in a stock-swap valued at $2.3bn.

The deal values Magna at about three times book value, said Union Planters. The resulting bank will have assets of about $28.5bn.

Magna is the third largest bank in Missouri, and its assets and branches are concentrated in St Louis, where Union Planters already has a small operation. The new bank will be the third largest in the St Louis area.

In early trading, Magna shares rose $10⅛ to 57\frac{1}{16}$, while Union Planters dropped $2¾ to 60\frac{11}{16}$.

The move confirms Wall Street predictions of a series of banking mergers in Tennessee, which had been relatively untouched by the consolidation that had swept the rest of the industry. It is the second acquisition valued at more than $2bn by a Tennessee-based bank in the last three months.

Three of Tennessee's four largest banks are headquartered in the state, but none ranks among the 30 largest banks nationally. Union Planters is the largest, but the state also has First American, with total assets of $17.8bn, and First Tennessee National with $14.3bn in assets.

All of them have reached a size where investment bankers claim they have lost the advantage of being small "community banks", without being large enough to command the economies of scale enjoyed by some leading national banks. This raises the pressure to make acquisitions if they want to maintain their independence.

Both Union Planters and First American appear to have decided on this approach, rather than submit to being acquired by a bank from outside the state. Union Planters already has eight other pending acquisitions in Tennessee and surrounding states, valued at approximately $3bn.

First American announced two months ago that it was buying Deposit Guaranty of Jackson, Mississippi, for $2.7bn. However, the deal has not been well received. First American's shares stood at $54⅞ when the deal was announced. Yesterday morning, they stood at 47\frac{11}{16}$.

AMERICAS NEWS DIGEST

Celestica buys Madge offshoot

Celestica International Holdings, of Canada, has consolidated its position as the world's third largest electronic manufacturing services company by acquiring Madge Network's manufacturing operations in Dublin. Terms were not disclosed, but the value of the deal was estimated at about C$250m (US$176m).

The deal will provide Madge, the UK-based group that designs and builds computer networking equipment, with a welcome infusion of cash.

Celestica said it would continue to manufacture Madge's networking and automatic teller machine products. Michael Wilson, vice-president at Madge, said the agreement would result in greater cost efficiencies for his company.

The purchase is Celestica's fifth in the past 14 months. The acquisitions have enhanced Celestica's ability to land large international supply contracts.

Formed in 1994 after being spun off from International Business Machines, Celestica has grown aggressively as computer designers increasingly seek to outsource equipment manufacturing. The US$73bn electronic manufacturing services market is expected to grow by 25 per cent a year, and is forecast to be worth US$178bn by 2001.

Since October 1996, Celestica – whose customers include Dell, Fujitsu, IBM and Sun Microsystems – has been wholly owned by Onex, the diversified Canadian holding company. Celestica, estimated to have annual revenues of about US$2.5bn, is expected to float in the next two years.

Scott Morrison, Toronto

■ CABLE TELEVISION

Comcast upbeat despite losses

Net losses at Comcast, the Philadelphia-based cable television operator, widened from 9 cents to 75 cents a share in the closing quarter of last year. However, management hailed sharply higher operating cash flow for the three months and the full year. "Financially and operationally, our company has never been in a stronger position," claimed Brian Roberts, group president.

The net result was dented by roll-out costs for new services in personal communications in partnership with Sprint, the long-distance telecoms carrier, while cable revenues and cash flow were bolstered by the acquisition of E! Entertainment and Scripps cable operations.

Fourth-quarter revenues rose 19 per cent to $1.4bn, and consolidated cash flow increased 17 per cent to $402m. Sales for the year were 22 per cent higher at $4.9bn and cash flow rose to $1.47bn.

Christopher Parkes, Los Angeles

■ ATLANTIC RICHFIELD

Coal assets under review

Directors of Atlantic Richfield, the US energy group, were yesterday expected to discuss the potential divestment of the company's sizeable coal division at their regular board meeting, although it was unclear whether a final decision would be made on how to proceed with the disposal.

The company put the assets up for disposal last year, but has been considering recently whether to sell the mines – which include the Black Thunder mine in Wyoming, which is the largest coal mine in the US – or spin off the coal business as a separate entity to Arco shareholders.

Arco's 87 per cent stake in the Curragh mine in Australia has been withdrawn from the sale, and the remaining Australian assets are likely to be sold separately. The US mines are said to be worth in excess of $1bn. Possible mooted buyers have included the Anglo-Australian Rio Tinto group.

Nikki Tait, Chicago

COMPANIES AND FINANCE: INTERNATIONAL

Final quarter may not be last word on USA Inc

There were few nasty surprises in the company reporting season, but some warn that the Asia effect has yet to filter through

Wall Street has barely waited for the US reporting season to end before powering to new heights. The Dow Jones Industrial Average, which stood at 7,580.42 on January 9, just before the reporting season started, finished last week at a near-record 8,413.94.

Behind this surge lies a popular impression that most of the big US companies lived up to earnings expectations in the final quarter of 1997, and that recent international financial turmoil is having only a temperate effect.

Admittedly, some companies, such as Minnesota Mining & Manufacturing (3M), saw profits growth dented by the strong dollar. Others, such as International Business Machines and Caterpillar, warned of stalling demand in Asian markets. But, overall, there were few nasty surprises.

Nevertheless, more sceptical analysts wonder if the market is getting ahead of events.

According to Charles Hill, research director at Boston-based First Call, the degree of outperformance in the final quarter of 1997 was more modest than usual.

"We always do it [outperform] – it's business as usual," he says. "In fact, the fourth quarter was a little less positive than normal."

Moreover, the final quarter of 1997 – when the effects of the Asian problem were only just beginning to seep through – was never going to be the critical period. Analysts paid particular attention this time round to companies' forward-looking statements and their assessments of how the recent turmoil might affect their businesses.

On this measure, the net result was to encourage some significant downgrading of forecasts for future earnings.

According to Mr Hill, before the reporting season started, analysts were looking for 10.1 per cent year-on-year earnings growth in the first quarter of 1998. By last week, when about 90 per cent of S&P 500 companies had reported, that figure had been cut to 4.5 per cent.

A number of big companies, including Eastman Kodak and IBM, warned that first-quarter earnings would fall below year-ago levels.

The Asian economic crisis takes most of the blame. "The factor [behind the downgrades in estimates] is overwhelmingly Asia," says Jeff Applegate, chief investment strategist at Lehman Brothers in New York.

Mr Hill concurs, saying that this has been a "big factor", with technology and basic material companies among the most affected.

The big question is whether this downgrading process is now at an end.

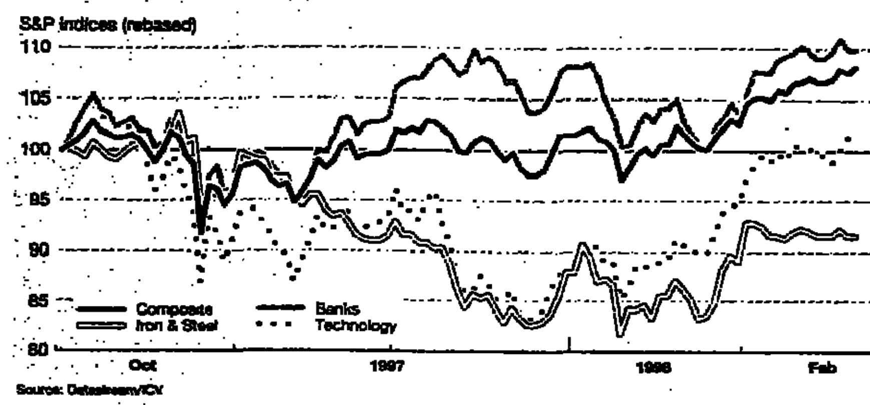
The latest results season has provided few answers. Mr Applegate, for example, believes that in spite of downgrades following fourth-quarter earnings reports, the market is still underestimating the effect of the Asian financial crisis.

Estimates, he says, "have only come down for the first quarter. For the rest of the year [forecasts] are still quite robust".

He estimates that earnings growth in 1998 will be down to about 7 per cent, compared with 10 per cent last year.

"The Asian financial crisis started in July and spread throughout the region, but there is always a lag between markets and the economy. The real economic distress is just unfolding," he says.

Performance guide



Source: Datastream/ICV

By contrast, Elizabeth Mackay, chief investment strategist at Bear Stearns, says the rethink on estimates has not been too dramatic because analysts see some compensating factors. The strength of the domestic economy and the prospect of better technology sales in Europe are two specific examples.

Much probably depends on which sector is being considered – and even which company within it. Carmakers, for example, outperformed estimates for fourth-quarter profits by 8 per cent, reporting a 55 per cent increase in earnings. But analysts still pared earnings growth expectations for 1998 from 3.8 per cent to 2.9 per cent – partly because of potential pricing pressures from Asian imports and/or US-based Japanese transplants.

Some analysts think the pessimism is overdone, pointing out that Asian woes also present opportunities for buying parts more cheaply; that other international markets still look fairly buoyant; and that the benefits from replacing expensive retiring workers with younger, cheaper labour are considerable.

"There'll be a slackening of earnings growth but not as much as Wall Street expects," predicts Diane Swonk, at First Chicago.

By contrast, US steelmakers are probably more vulnerable. They face reduced Asian demand as construction in the region slows, and the possibility of a flood of cheap imports – and will see fewer opportunities to offset these factors by lowering input costs. Analysts now expect an earnings decline of almost 7 per cent in 1998, compared with predictions of a 4.5 per cent fall when the earnings season started.

In the technology sector, too, concerns about Asian economic problems remain widespread – although most large US companies reported stronger than expected results for the final quarter of 1997, as European markets rebounded and North American demand stayed strong.

"It is likely that we have not yet seen the full impact of the situation in Asia," says Bob Wayman, chief financial officer of Hewlett-Packard, the computer and electronics group. While the group reported record turnover for the quarter just ended, sales in Asia had slowed toward the end of the period.

But here, too, there is a silver lining to Asian economic problems. US personal computer manufacturers purchase many of their components in Asia. US dollar prices for these parts, including memory chips and disk drives, are now dropping in line with the declining values of some Asian currencies.

This has helped to lower PC prices in the US and boost sales. Dell Computer, which ranks fourth in the world in PC sales, outstripped Wall Street's forecasts with a 62 per cent jump in net earnings for the quarter ended February 1.

In short, as analysts point out, the gap between "top down" and "bottom up" – macro and company-specific – estimates is wider than normal. This, they say, is because it is easier to make a broad estimate of the effect of the Asian crisis than to pinpoint the effect company by company.

"A lot of the companies don't know themselves," says Ms Mackay. And that, she predicts, means that many companies will continue to guide analysts with trading statements ahead of their earnings announcements, in an effort to avoid giving the market any shocks.

Tracy Corrigan, Louise Kehoe and Nikki Tait

Mitsubishi eyes Europe with notebook PC

By Michiyo Nakamoto in Tokyo

Mitsubishi Electric, one of Japan's five large integrated electronics groups, plans to launch the world's thinnest notebook PC in Europe, as part of its efforts to expand its presence in the region's PC market.

The move comes as the company is considering withdrawing from the consumer desktop PC market in the UK and Germany to focus on the business market.

Mitsubishi is also expected to review its strategy for the Japanese consumer desktop PC market, where fierce competition has eroded margins significantly.

The FT incorrectly reported yesterday that Mitsubishi was quitting the PC market in Europe and Japan. The company said it was "considering a plan which would shift the weight of its consumer PC operations from desktop models to mobile PCs".

It noted that 90 per cent of its PC sales in Europe and Japan were to the business market, with the remaining 10 per cent to the home-use market. It last year sold about 400,000 PCs worldwide – 240,000 desktops and 160,000 notebooks.

The consumer market for desktop PCs has been plagued by fierce price competition and sluggish consumer spending.

Mitsubishi said that strengthening its business and its notebook PC sales should lead to increased production. The company hopes that the European launch of the thinnest notebook PC, called the Pideon, and its efforts to lower costs for business users, will help differentiate its PC line from that of competitors.

Yesterday's FT story misidentified the South Korean company Samsung as Japanese.

Swisscom moves to shake up management

By William Hall in Zurich

Swisscom, the Swiss telecoms company which is soon to be privatised, has overhauled its senior management team.

The shuffle means that only two members of the new nine-strong management board are Swisscom veterans.

Jens Alder, 40, general manager, telecoms at Alcatel Switzerland, is the latest outsider to be drafted in to strengthen the management of Swisscom, which faces competition from international competitors following liberalisation of the Swiss market on January 1.

Mr Alder replaces Pierre-André Probst as head of network services. Mr Probst, who joined Swiss PTT in 1972, becomes head of corporate operations, which takes in the secretariat, corporate communications and projects such as the millennium and Switzerland's Expo 2001. Walter Frei, who joined the group in 1968, remains head of human resources.

However, Tony Reis, 56, the ex-IBM executive who took over as Swisscom's chief executive last month, has put together a new top management team made up largely of recently recruited outsiders. Heinz Karrer, 39, the new head of marketing and sales, has joined from the Ringier publishing group; Adrian Bult, head of corporate information and technology, is a former IBM executive; and David Schnell, 50, the finance director, comes from Elco Looser.

Dominik Koechlin, 39, head of corporate development, is a former business consultant who joined Swisscom in April 1996, and Jeffrey Hedberg, 37, an American who took over as head of Swisscom International last year, is a former Coopers & Lybrand consultant who joined Swisscom in May 1994. Swisscom still has to find a head of its new "product houses" division.

The shake-up of management reflects Swisscom's response to the twin challenges of increased competition, following the deregulation of the local telecoms market, and the need to strengthen management ahead of Swisscom's flotation later this year.

Switzerland is a relatively mature and expensive telecoms market and Swisscom's new competitors, which include British Telecommunications and SBC of the US, are determined to win market share by cutting prices.

● Viag Interkom, the joint venture between Viag, British Telecommunications and Telenor which aims to become one of Deutsche Telekom's principal rivals, has postponed the launch of its fixed network operations, according to reports, Alan Cane writes.

It also intends to delay the integration of its fixed and mobile telephone services until 1999. Fixed telephone services for small companies and corporate customers due to begin this quarter will not start until May and June.

The delay has been attributed to extended testing and a failure to agree customer billing with Deutsche Telekom. Last year, o.tel.o, backed by RWE and Veba, said it would launch public voice services in April, four months after liberalisation.

Asia crisis curbs HongkongBank rise

By John Ridding in Hong Kong

HongkongBank Group, the Asian arm of HSBC Holdings, bore the brunt of the group's exposure to the regional economic downturn, with bad debt provisions of HK$4.54bn (US$586m) limiting net profits to HK$19.79bn last year, a rise of 3 per cent.

The results, which were at the lower end of analysts' forecasts, underlined the impact of the upheaval in Hong Kong and regional economies. "They were a little under expectations," said Anthony Lok at Indosuez W.I. Carr. He said 1998 was likely to bring a further rise in provisions as the financial upheaval fed into the real economy.

Revealing the threefold increase in provisions, which included a precautionary provision of HK$1.6bn to account for emerging credit problems, the group pointed to its cautious policy and expectations of further fall-out from the regional crisis.

"The increase in specific provisions was relatively modest, but our conservative policy and the growth of our balance sheet meant we increased significantly our general bad-debt charge," said John Strickland, chairman.

Describing last year's performance as "satisfactory" and expressing confidence in the region's prospects, Mr Strickland warned of further turbulence. "Our perception is that the turmoil and disturbances are by no means over," he said. "So we will be cautious and make all the necessary provisions."

Sir William Purves, who retires this year and was attending his last results announcement as chairman of HSBC Holdings, said the impact of the crisis could affect the pace of implementing the group's strategy, but not the direction. Signalling the group would continue to develop personal banking operations throughout the region, he remained optimistic about Asia's prospects.

The HSBC chief warned, however, that Hong Kong would need to tackle issues of competitiveness. "Hong Kong has become too expensive. No-one likes tightening their belts, but particularly in the first half of 1997 there was a kind of euphoria."

Like other banks, the group raised sharply its loans in Hong Kong last year. Despite a slowdown in the territory in the second half, advances to customers climbed from HK$616.14bn to HK$749.45bn, while total assets rose from HK$1,294bn to HK$1,475bn.

Much of the growth in Hong Kong lending was concentrated in the property sector, raising fears of the impact of tumbling prices amid higher interest rates. Sir William said, however, the group was "comfortable" with its Hong Kong property exposure, and that home loans in the territory represent high-quality lending.

Stripping out the rise in bad-debt provisions and losses in equity operations at the investment banking division, the HongkongBank group had a solid year. Operating profit climbed 14 per cent to HK$30.72bn, while net interest income rose from HK$30.08bn to HK$33.35bn, despite a fall in net interest margins.

The return on average shareholders' funds rose 22.4 per cent, while the cost-to-income ratio fell from 39.5 per cent in 1996 to 38.7 per cent last year.

Observer, Page 17

HSBC Holdings' drive to lift earnings outside its Asian base bore fruit last year, as higher profits from the UK and the Americas helped offset weaker results in Asia-Pacific, writes George Graham.

Midland Bank, HSBC's main UK subsidiary, increased profits 28 per cent to £1.63bn ($2.7bn) before tax as lending grew strongly and bad debt provisions dropped to £129m from £172m in 1996. Income at Midland rose 11 per cent but the bank held cost growth to 3 per cent.

Overall, Midland cut its cost:income ratio to 57.5 per cent from 62.2 per cent in 1996, falling closer into line with the group's overall ratio of 54 per cent.

Profits from HSBC Americas, the US operation, and Hongkong Bank of Canada increased by 24 per cent and 17 per cent, respectively, while Latin America – where HSBC has spent $2bn on acquisitions in the past 18 months – also produced an increased contribution. Bamerindus, the troubled Brazilian bank bought last year, produced a pre-tax profit of £54m in its first nine months within the group, winning back 1.5m customers and increasing its deposit base by 50 per cent.

Provisions doubled at Hang Seng Bank

By Louise Lucas in Hong Kong

Hang Seng Bank, which is Hong Kong's second-biggest quoted bank and the listed subsidiary of HSBC Holdings, said yesterday that it had doubled its calculations for general provisions because of the Asian financial crisis, from which it has so far emerged relatively unscathed.

The bank, which unveiled a 10.3 per cent rise in net profits for last year, from HK$8.49bn to HK$9.36bn (US$1.2bn) in 1997, said the increase in general provisions was prudent. Because of a sharp reduction in specific provisions last year, the total write-down was 11.2 per cent lower than the previous year: from HK$715m in 1996 to HK$635m.

General provisions accounted for HK$500m, against HK$139m in 1996. David Eldon, chairman, said about HK$250m had been put aside for general provisions, in addition to the level normally accounted for. "This is because of the uncertainty and because of the possible effect on Hong Kong of what's going on in the rest of Asia, which is very difficult to quantify," he said.

The bank's reliance on the local market, which has remained relatively unaffected by the Asian financial crisis, meant that the turmoil in the region had a negligible impact on Hang Seng last year. However, falling property prices – precipitated in part by attacks on the Hong Kong dollar in the wake of collapsing currencies elsewhere in the region – mean the bank expects to see loan growth curbed this year.

The currency attack led to higher interbank interest rates in Hong Kong in the second half of last year, and therefore squeezed margins on lending. However, Hang Seng Bank was able to maintain its net interest margin of 3.1 per cent.

This was due to strong growth in advances – net interest income increased 9.1 per cent to HK$11.16bn – and higher yields realised on free funds and interbank assets. "We have done quite well in the interbank market and we have shareholders' funds which are interest-free funds," said Alex Au, chief executive.

Earnings per share rose 10.5 per cent, from HK$4.39 to HK$4.85, and directors are proposing an 11 per cent increase in the dividend, from HK$3.08 share to HK$3.42.

SK Telecom slides 42% as US revolt threatens

By John Burton in Seoul

SK Telecom, South Korea's largest mobile phone service provider, yesterday reported a 42 per cent fall in 1997 net earnings as it confronts a threatened shareholder revolt by US institutional investors next month.

SK Telecom blamed the unexpected fall in profits to Won113.6bn ($68.5m) from Won195.5bn in 1996 on increases in operating costs and losses from the devaluation of the Korean currency.

Sales grew by 31 per cent to Won3,510bn, as the number of users expanded after a fall in the price of cellular handsets and removal of subscriber deposit requirements. Profit margins were squeezed because of increased competition as rival personal communications service (PCS) operators challenged SK Telecom's cellular phone system.

This raised marketing costs for SK Telecom, which also increased capital spending as it switched its network to a digital system from an analogue one.

The profit fall coincides with a recent finding by Korea's Fair Trade Commission that the SK Group, the parent for SK Telecom, was allegedly using the cellular phone operator to provide hidden subsidies to other weaker group affiliates.

The FTC said in January that SK Telecom had paid inflated prices for equipment and services provided by other SK units, which cut its 1996 operating profit and resulted in lower dividend and tax payments.

Several US institutional investors, including Tiger Management, Scudder Kemper Investments and Oppenheimer Global Fund, allege that SK Telecom also tried to provide low-interest loans to SK Securities, which recently suffered heavy losses on overseas derivatives trading.

The US institutional investors, which hold nearly 10 per cent of SK Telecom, are demanding the right to appoint two outside directors. They also want shareholders to approve any overseas investments, foreign-denominated loans, and share issues abroad.

The demands by the US investor funds, which will be debated at a shareholders' meeting next month, represent the first serious challenge by foreigners against Korean corporate practices to protect share values.

It is uncertain whether the US investor funds will succeed in pushing through the reforms. Foreign investors hold a combined 33 per cent of SK Telecom. Chey Jong-hyon, the SK Group chairman, and other family members hold 26 per cent.

The deciding vote will be held by Korea Telecom, the state-run group, with 19 per cent, and other Korean institutional investors.

Comalco swings back into the black

By Gwen Robinson in Sydney

Precious metal: Comalco's Queensland aluminium smelter

Comalco, the Australian aluminium subsidiary of Rio Tinto, the Anglo-Australian mining group, shook off the impact of Asian economic turmoil to report a strong turnround in the year to December.

Net profit after abnormal items was A$220m (US$148m), compared with the previous year's loss of A$16.8m, because of increased production, higher prices and lower costs.

The company, which is 67 per cent owned by Rio Tinto, also announced a 430 per cent increase in the final dividend from 3 cents to 13 cents, taking the payout for the year to 20 cents from 6 cents a year earlier.

Terry Palmer, Comalco chief executive, said the company expected to improve its performance further this year, in light of its continued cost-cutting and forecasts for a stable aluminium market.

Mr Palmer brushed aside concerns about the economic outlook for the Asia-Pacific region, where Comalco sells about 70 per cent of its production.

Amid surging production, the company was already planning to sell 10 per cent to 15 per cent more of its metal in the North American and European markets, where demand was "buoyant".

Asian turmoil would not significantly affect the company's 1998 results, provided there was "no further deterioration" in that region, the company said.

Comalco shares closed 10 cents higher at A$6.40.

ASIA-PACIFIC NEWS DIGEST

Mobile growth bolsters Optus

Optus Communications, Australia's second-largest telecommunications carrier, said yesterday that strong growth in the mobile communications market helped reduce pre-tax losses in the first half to December.

However, Optus' integration of Optus Vision, its pay-television operation, weighed heavily on interim results. Optus reported an interim pre-tax loss of A$83.6m (US$56m), including an abnormal loss of A$11.5m from its pay-TV business. The result compared with a loss of A$121.5m a year earlier. The operating result, however, turned from a loss of A$63m to a profit of A$40.8m. Sales increased nearly 20 per cent to A$1.45bn.

The company's struggle to move into the black is central to its plans to list on the Australian Stock Exchange. Optus is 49 per cent owned by Cable and Wireless, the UK telecommunications group, and 25 per cent by Mayne Nickless, the Australian transport and healthcare services company. Analysts said the result was better than expected and could pave the way for a flotation next year.

After spending more than A$3bn on an unsuccessful cable network to provide telephony and pay-TV services, it is important for Optus to penetrate the A$4bn local call market, currently dominated by Telstra, the largest carrier. To achieve this, Optus must secure competitively-priced access to Telstra's network. "This is a make-or-break year for Optus," said Chris Savage, analyst with BNP Equities. He noted that growth in Optus' most profitable areas – mobile phone and long-distance markets – had probably peaked.

Chris Anderson, Optus chief executive, acknowledged that "the giddy days of the company's start-up are over". However, he said the company would continue with its cost-cutting programme, which saw staff numbers cut by about 1,200 to about 6,000 in the first half, and maintain investment to increase capacity in the expanding information sector. While increased investment would add to depreciation and interest charges in the full year, the company's resolve to cut costs further and tackle the debt burden of its pay-TV arm could help full-year results, analysts said.

Gwen Robinson, Sydney

■ RETAIL

Japan's Daiei sees full-year loss

Daiei, the aggressive Japanese retail group that has pioneered discounting and own-brand products, said yesterday it would post a loss for the current financial year because of weak domestic consumption following a rise in sales taxes last year and worries about the country's banking sector.

The announcement came as Japan's Ministry of International Trade and Industry said retail sales in 1997 had fallen for the first time in two years as the sales tax increase imposed last April started to bite. Retail sales would continue to weaken in the first quarter of this year, MITI said.

Daiei, which with nearly 400 stores across Japan is the country's biggest supermarket group, said it would report a pre-tax loss of Y25bn ($196bn) in the year to the end of February on revenues of Y2,480bn. Late last year, the company forecast a profit of Y7bn for the year.

Daiei shares fell Y8, or 1.19 per cent, on the Tokyo Stock Exchange after the announcement.

However, the group said property sales, including the sale of a stake in Lawson, its convenience store subsidiary which has 6,000 outlets, and of an amusement park, would allow it to post a small net profit. The disposals are expected to raise Y26bn, enabling Daiei to report a net profit of Y1bn. The company also predicted a return to profit in the next financial year, which begins on March 1, forecasting a profit of Y5bn on sales of Y2,460bn. The Lawson stake is being sold through a flotation of the unit, which also operates a shopping centre in Hawaii. Daiei is selling 116,000 shares in the unit to raise Y16.6bn.

Isao Nakauchi, Daiei president, said the company would accelerate the Y40bn restructuring under way at its general merchandise stores and close about 15 lossmaking outlets in response to the downturn in the market.

In 1996-97 Daiei made a profit of Y590m, but is saddled with a high debts after its rapid expansion in the past few years. Mr Nakauchi said group debt at the end of the current year would amount to Y690bn, compared with Y660bn a year ago.

Vincent Boland, Tokyo

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Saipem offering set to raise L1,000bn

By Paul Betts in Milan

Saipem, the oilfield services company controlled by Italy's Eni oil and gas group, is set to launch one of Europe's largest non-government share offerings this year in a deal expected to raise L1,000bn ($557m).

The transaction, scheduled for the end of March, will involve a new equity issue by Saipem to raise about L400bn, as well as the sale by Eni of Saipem shares worth about L600bn.

The final size of the the offering to professional investors in Italy and to institutional investors in the rest of the world will be announced on Thursday. The price is due to be announced on March 13.

The oilfield services company plans to issue about 40m new shares, while Eni is expected to sell between 60m and 70m Saipem shares, reducing its stake from 66 per cent to below 50 per cent. However, Eni's stake in Saipem will not fall below 40 per cent.

Fabrizio d'Adda, Saipem chairman, said the capital increase was designed to help fund the group's L1,700bn four-year investment programme.

"We want to continue growing and we see a strong market in the offshore sector in coming years," he said. "Our strategy is to focus even more offshore," he said.

Offshore fields are expected to account for an increasing share of global oil production. At the beginning of the decade about 25 per cent of global oil production came from offshore fields. By the end of the decade, this is expected to be 35 per cent.

Mr Pietro Tali, chief financial officer, said Saipem wanted to be able to react quickly to merger and acquisition opportunities.

Although Eni regards Saipem as a strategic asset, the oil group considers it no longer needs to own 66 per cent to control the company. Its decision to reduce its stake is also designed to provide more value to Eni shareholders as well as increase the liquidity of Saipem shares in the market.

Saipem shares trade at a discount to its peers because of the stock's poor liquidity, Mr Tali said.

Eni's move also coincides with expectations that the government will float a fourth tranche of its shares in the oil group later this year, to reduce its stake to below 50 per cent.

Saipem's adviser is SBC Warburg Dillon Read. The joint global co-ordinators for the offering are Goldman Sachs and IMI, the Italian investment bank. For the international offering, the joint lead managers and joint bookrunners are Goldman Sachs and SBC Warburg, while IMI is lead manager for the Italian institutional offering.

VW may build plant in North America

By Graham Bowley in Frankfurt

Volkswagen, the German motor company, is studying plans to build a new car factory in either Mexico, the US or Canada as part of its ambition to raise US sales.

Europe's biggest car manufacturer said it was looking at several alternatives, but refused to say how much it would spend on the plant or when a decision would be made.

"These are our first ideas about putting more production into the North American region. It may be Mexico, may be the US, may be Canada, but probably Mexico," the company said.

VW said the new factory would probably be used to make cars using the basic Golf platform. VW already has a factory in Mexico, where it makes the Golf as well as the new and old Beetle models.

However, industry analysts said VW might be looking to build a plant in the US to manufacture a new sports utility vehicle.

Philipp Rosengarten, analyst at DRI/McGraw-Hill in London, said VW might make a decision soon to go ahead with a new off-road vehicle in collaboration with its fellow German car company Porsche.

"The car industry has known for a while that VW is really looking for a site in America," he said. Daimler-Benz has already begun production of its new Mercedes M-Class sports utility vehicle at its new plant in Alabama.

If the US were chosen as the site for the plant, it would mark a return to the country for VW.

The car group was forced to close its plants in the US in the late 1980s after its Golf car failed to take off despite the earlier popularity in the US of the original VW Beetle.

VW hopes that its new Beetle – which is designed for the US market, where it goes on sale next month – will help it to secure a stronger foothold in the US.

VW hopes to sell 50,000 new Beetles in North America in the first full year of production. Output of the vehicle, which is built in Mexico, is eventually expected to reach 100,000 units a year.

The new plans may increase speculation about when VW intends to resume the DM6bn-DM8bn ($3.3bn-$4.4bn) share issue, which was called off late last year after its shares fell sharply.

European IT spending rises to $83bn

By Paul Taylor

Europe's 500 biggest companies spent a total of £51bn ($83bn) on information technology last year, according to a survey conducted by Spikes Cavell, the European IT market research firm.

The survey also appears to confirm that the year 2000 computer date problem and European monetary union are diverting some corporate IT spending, particularly in the financial services sector.

However the other main factors driving IT spending in Europe include the growth of the internet, internal intranets and web commerce as companies seek to use IT to improve efficiency, channels to market and customer support.

Among Europe's big corporate IT spenders, two companies – Siemens, the German electrical and electronics group, and Royal Dutch/Shell, the Anglo/Dutch oil group – broke the £1bn barrier for the first time.

Predictably, the survey, conducted in association with Information Week magazine, confirms that many of the top IT spenders operate in the financial services industry.

However, utilities, which are preparing for domestic competition, also emerge as big IT investors.

"The banking sector appears to be addressing issues such as year 2000 and European monetary union, which is diverting some of the existing IT spend," said Luke Spikes, managing director of Spikes Cavell. "However, many organisations in other non-financial markets remain slow to act.

"Other factors, such as the strong value of sterling, particularly in Europe, are also making companies think cautiously about IT spend. Many organisations which relay heavily on revenues from overseas are affected by currency fluctuation, which in turn impacts profits, earnings, growth, costs and investment, including IT investment."

The 85 German companies in the table have the highest combined IT expenditure. But the 128 UK-based companies – which have a slightly lower total IT spend than their German counterparts – emerge as the biggest spenders in terms of proportion of revenues.

Europe's top 10 IT spenders in 1997

Company	Country	Sector	IT spend £m
Siemens	Germany	[illegible]	[illegible]
Royal Dutch/Shell	UK/Neths	Oil, Gas & Fuel	1,000
Barclays	[illegible]	[illegible]	[illegible]
Daimler Benz	Germany	Transport	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Deutsche Telekom	Germany	Communications	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
ABN Amro	[illegible]	[illegible]	[illegible]
Philips Electronics	Neths	Electronics	587
[illegible]	[illegible]	[illegible]	[illegible]
Volkswagen	Germany	Transport	548

Source: Spikes Cavell

Takeover activity seizes Dutch chemical groups

By Gordon Cramb in Amsterdam

DSM chairman Simon de Bree: 'We will become top player'

The Dutch chemicals sector yesterday entered a renewed phase of takeover activity, as DSM launched a bid worth more than Fl 2.7bn ($1.3bn) for Gist-Brocades, and Akzo Nobel said it was in talks aimed at acquisitions in Asia and eastern Europe.

Cees van Lede, Akzo chairman, said in an interview that the collapse of currencies and stock markets in south-east Asia was providing opportunities in particular for its coatings division. "In almost all these countries, we are talking."

Net divestments for 1997 were Fl 650m as Akzo shed poorer performers, but Mr van Lede made clear that this year would see significant purchases.

DSM meanwhile made an agreed offer for Gist-Brocades, the biotechnology company. Terms are Fl 32.50 cash plus one-sixth of a DSM share for every share in Gist.

Shares in Gist closed Fl 4.90 higher in Amsterdam at Fl 64.90, while those in DSM ended Fl 2.70 ahead at Fl 203.50. This values the bid at Fl 66.41 a share.

Simon de Bree, DSM chairman, said the effect on earnings per share of what he described as a merger would be neutral. "We will become a top player in the life science industries, with the potential to create new products," he added.

He said DSM's energy interests in the UK would be sold as part of a rationalisation of its chemicals and materials portfolio. It would retain an involvement in oil and gas exploration on the Dutch continental shelf.

Herman Scheffer, the Gist chief, who is to join DSM's board, said his company needed the cash flow an enlarged group would provide to invest in research and technology.

Preliminary indications of Gist's 1997 results showed a decline in profitability. Prices for penicillin, in which it is world leader, have been hit by capacity increases among Asian producers. On sales of Fl 2.2bn, up 10 per cent, net earnings at Fl 150m were down from the previous Fl 158.5m. At the operating level, profits declined to Fl 188.5m from Fl 196.5m.

The combined group will have annual sales of nearly Fl 15bn. Adviser to Gist is ABN Amro, while ING Barings is advising DSM.

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Observer, Page 17

Sandvik dented by acquisition expenses

By Tim Burt in Stockholm

Sandvik, the Swedish industrial engineering group, said yesterday its full-year profits were hampered by volatile steel prices, acquisition expenses and unhelpful exchange rates.

The company, reporting pre-tax profits down from SKr4.45bn to SKr4.21bn ($520m), said its results would have been SKr1bn higher but for costs associated with last year's SKr4.3bn acquisition spree and a 6 per cent fall in steel prices.

Claes Ake Hedström, chief executive, said currency effects had knocked a further SKr500m off the bottom line, even though sales rose 21 per cent from SKr28.3m to SKr34.1m.

"We had hoped things would improve in the fourth quarter, but prices remained under pressure and overcapacity continued in most of our business areas," he said.

Mr Hedström warned steel prices could be further undermined as Asian producers tried to increase their presence in Europe and North America: "The situation in Asia is so uncertain that it is impossible to make any firm forecasts about the current year."

Last year, maiden contributions from three newly-acquired subsidiaries helped lift operating income from SKr4.1bn to SKr4.37bn.

Although the company declined to strip out profits from Tamrock, Kanthal and Precision Twist Drill – the three businesses acquired in 1997 – they accounted for more than one-third of sales.

Of the seven business areas, Sandvik Tooling contributed the lion's share of profits – up from SKr2.03bn to SKr2.09bn. Among the remaining divisions, only Sandvik Steel reported a decline.

Earnings per share, adjusted for last year's SKr4bn share redemption, fell from SKr11.20 to SKr10.25. A dividend of SKr7 has been proposed, against SKr6.50 last time.

Sandvik's most commonly traded B shares fell SKr5.50 to SKr215.

EUROPEAN NEWS DIGEST

Dexia pulls out of bidding for CIC

Dexia, the specialist Franco-Belgian bank, yesterday pulled out of the battle for control of CIC, the French state-owned regional banking group, cutting the number of candidates down to five. Dexia, the holding company controlling Crédit Local de France and Crédit Communal de Belgique, said it withdrew because of the negative impact on its financial ratios and the limited synergies that the acquisition would generate for such a large investment.

The group said it had taken note of opinions expressed by the credit rating agencies as well as its shareholders, while stressing that its Belgian partners had been entirely favourable to the project. As the deadline for the privatisation closed yesterday evening, the French government said five candidates had made bids: ABN Amro, BNP, Crédit Commercial de France, Crédit Mutuel and Société Générale.

Seven candidates had examined the confidential financial information on CIC available in a "data room" during the tender, but another candidate, Générale de Banque of Belgium, pulled out. The state privatisation commission is expected to examine the offers at the start of March, and hold hearings with all bidders as well as CIC and GAN, the French insurance group which controls CIC and will retain a minority stake after the sale. The government said yesterday that a decision on the winning bid would be made by the end of March. *Andrew Jack, Paris*

■ PHARMACEUTICALS

P&U to invest SKr1.1bn in R&D

Pharmacia & Upjohn, the US-Swedish drugs group, is planning to invest SKr1.1bn ($136m) in new research and development facilities in Stockholm. The company said the new centre would employ about 235 researchers in the Swedish capital, although its annual R&D spending of $900m would remain largely unchanged.

About 30 per cent of the group's R&D resources will be spent in Sweden, with the remainder divided mainly between research sites in Milan and Kalamazoo in the US. The company confirmed, however, that its was still negotiating the sale of its research activities in Lund, southern Sweden, to Active Biotech, the Swedish investment company.

Separately, Fred Hassan, chief executive, told an analysts meeting in Stockholm that brokers' forecasted average of 15 per cent profit growth this year was too optimistic. "Analysts are expecting too much too soon," he said.

In a briefing following last week's annual results, Mr Hassan described 1998 as a "turnround around year", but remained cautious about the likely profits. "Since December, the negative currency effect and developments in Asia mean that one should be conservative with forecasts," he said. P&U last week reported reduced full year profits of $739m, compared with $997m, on lower sales of $6.4bn for 1997. *Tim Burt, Stockholm*

■ TEXTILES

Lenzing losses quadruple

Net losses of Lenzing, Europe's biggest viscose fibre producer, quadrupled to Sch658m ($51.3m) in 1997. The highly geared group, which is pinning its faith on its new Lyocell brand to beat off competition from cheaper man-made fibres, reported worse than expected losses because of the need to take Sch419m of provisions and asset write-offs at affiliated companies such as Lenzing Fibres Corp in the US and Bacell in Brazil.

Group sales fell 8 per cent to Sch7.2bn in spite of a rise in sales volume. South Pacific Viscose, Lenzing's important Indonesian affiliate, reported double-digit losses because of the Asian currency crisis. However, a revaluation of SPV's assets offset the higher cost of dollar-based loans, so no provisions were necessary for the repayment of SPV's loans.

Lenzing, which wrote off Sch532m at Lenzing Fibres Corp in 1996, made further US provisions in 1997 but expects the US to break even this year. After two years of heavy losses, Lenzing expects to make a profit in 1998. *William Hall, Zurich*

■ TELECOMS

Charges hurt Tele Danmark

Tele Danmark, the Danish telecommunications group, yesterday rushed out its 1997 results to damp market speculation about the size of charges taken for job cuts. It said pre-tax profits slid from DKr5bn in 1996 to DKr2.9bn ($417.7m) last year, while net profits were down from DKr3.1bn to DKr1.5bn.

The slide was attributed to redundancy payments of DKr1bn in Danmark and another DKr873m for job cuts at Belgacom, the Belgian company in which Tele Danmark has a 16.6 per cent holding. Turnover rose 24 per cent to DKr29bn. Earnings after net financial items but before the redundancy charges were up by DKr200m to DKr4.7bn. The most-traded B shares fell DKr12 to DKr445. *Hilary Barnes, Copenhagen*

■ BROADCASTING

Canal Plus to beam into Poland

Canal Plus, the French pay television operator, said yesterday it would start broadcasting 14 digital channels by satellite into Poland next autumn. The move will pit the French company, which has 240,000 subscribers for its local terrestrial service, against At Entertainment, a US-funded satellite broadcaster which says it will begin beaming 14 digital channels into Poland next April.

At Entertainment is jointly owned by David Chase, a US-based cable television operator in Poland and Advent International, the private equity investment company. At Entertainment raised $200m through an issue of new shares to finance the digital television project in Poland. *Christopher Bobinski, Warsaw*

■ POLAND

Further KGHM stake sale sought

Poland wants to sell another 15 per cent of KGHM, the copper producer, to an institutional investor, Emil Wasacz, treasury minister, confirmed yesterday. The move would follow last year's flotation of one of Poland's largest listed industrial companies, in which the state retained a 60 per cent stake. A shareholders' meeting yesterday replaced the supervisory board of KGHM. Andrzej Wilk, former head of Poland's industrial confederation, an employers' association, is set to become the new chairman. *Christopher Bobinski*

■ PACKAGING

MMK posts 44% advance

Mayr-Melnhof Karton, one of Europe's leading producers of cartonboard, lifted net income 44 per cent to Sch644m ($50m) in 1997 but has left its dividend unchanged at Sch17 a share. Group sales rose 10 per cent to Sch11.5bn and operating margins rose from 7.3 per cent to 9.1 per cent. The cartonboard division, which increased production 2 per cent to slightly over 1m tonnes and gained market share, benefited from higher prices and stable raw material costs. Acquisition of R. J. Reynolds' German cigarette carton plant helped increase sales of converted products by 17 per cent to 215,000 tonnes and has made the group one of the top three European cigarette carton producers. MMK shares closed up Sch7.50 at Sch724.50 yesterday. *William Hall*

COMPANIES AND FINANCE: UK

Mayflower offers Vickers a bouquet

By Roger Taylor

Mayflower Corporation, the vehicle body designer and manufacturer, has formerly declared peace with Vickers, the defence and engineering group that it threatened to bid for in November.

John Simpson, Mayflower's chief executive, said yesterday he wanted to put the issue behind him, as the company announced a sharp rise in 1997 profits. He made clear that there was now no possibility of Mayflower bidding for the much larger company.

However, he said shareholders had been willing to provide up to £1.5bn ($2.5bn) of funding for a Vickers bid – financial support which was still available should another opportunity arise.

The company could afford to spend up to £250m cash before having to call on shareholders for funds, he added. The company was in talks about acquisitions, but nothing was likely to be concluded in the next six months.

Mayflower has said it wants to grow into a business with about six product lines, each contributing more than £50m in profit. So far, it has just two: vehicle body panels and buses.

The abandoned bid for Vickers cost Mayflower £1.9m, although costs were lower than might be expected because many advisers's fees were contingent on the bid proceeding.

Mr Simpson added that investors appreciated Mayflower as a company which "thought outside the box". Such innovative thinking inevitably meant the occasional loss, he said.

Operating profits rose from £23.9m to £38.2m, on turnover up 43 per cent at £393m (£275m). After exceptional costs, including the bid, profits were £33.3m (£17.9m), on earnings per share of 10.23p (5.32p).

The results were in line with expectations and the shares lost 1p at 173½p. On forecasts for this year of £43m pre-tax profits, the shares are on 13.5 times 1998 earnings.

Still energised after hard week

Scheherazade Daneshkhu talks to Sir Ian Prosser of Bass

For someone who has spent the past week in London, Tokyo and New York twice, Sir Ian Prosser, chairman and chief executive of Bass, was remarkably lively yesterday.

The excitement of clinching a $2.9bn deal on Friday night to acquire Inter-Continental Hotels and Resorts from Japan's Saison group, has clearly energised a man criticised for being good at selling assets, but not at buying them.

The group, which is virtually ungeared, was seen as desperate to make an acquisition after last year's setbacks in its attempts to buy Carlsberg-Tetley, the UK brewer, and William Hill, the betting shop chain.

The sale of most of its leisure businesses – Gala bingo and Coral betting shops – and its effective exit from tenanted pubs, left it with plenty of cash, even after a promised £850m share buy-back.

"Do you want to know the truth?" asked Sir Ian. "We have felt under no pressure to buy – none at all."

Sir Ian, who was long criticised for paying $2.3bn for the Holiday Inn chain in 1990, was keen to show he had not overpaid for Inter-Continental.

The $2.9bn price represents a hefty-looking 16 times earnings before interest, depreciation and tax in 1997 of $179m, a premium to the 13 times EBITDA recently paid by Starwood in a $10.2bn deal for ITT Corporation, owners of the Sheraton hotel chain.

However, Bass argues that, for a one-off investment of $50m, it will make $40m annual savings through reservations, purchasing, sales and marketing, implying an EBITDA multiple of just under 13 times.

Moreover, it expects the value of Inter-Continental's 22 owned hotels – which account for three-quarters of the profit – to rise from the $2.1bn price at which they were valued for Bass earlier this month by Richard Ellis, chartered surveyors. It will invest $750m over three years.

Revenues from branded upmarket hotels have grown at nearly 8 per cent a year over the last 10 years, a rate of growth which the company expected to accelerate over the next decade.

Mark Finnie, leisure analyst at NatWest Securities said: "The deal, even with the savings, still looks expensive and is a reflection of the strategic necessity to make the acquisition."

Shares in Bass, which have underperformed the market by 10 per cent over the past 12 months, closed up 56p at £10.16 – an indication that initial reaction has been swayed by Bass's arguments.

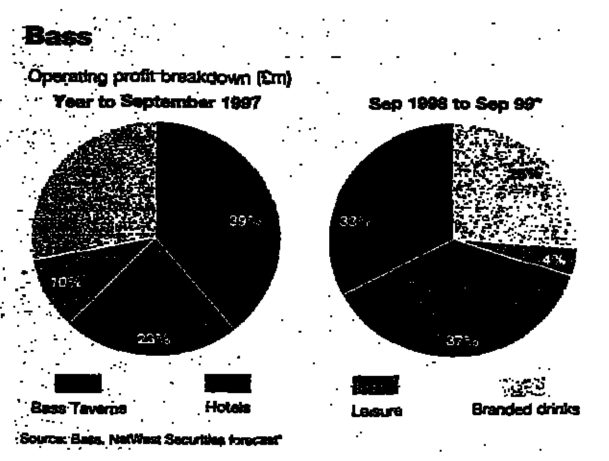
Paul Slattery, leisure analyst at Dresdner Kleinwort Benson, believes the potential for growth should not be underestimated. "Bass has sold businesses that were small, limited in growth prospects and UK-specific, and bought a world brand with major growth prospects."

The acquisition of the 187 international hotels, in addition to the group's Holiday Inn, Crowne Plaza and Holiday Inn Express budget chain, will make it more evenly balanced between its core businesses of hotels, branded drinks and leisure retailing.

Bass will incur about £2bn of debt after the purchase and the share buy-back, giving interest cover of 5 times. This will limit its ability to make a large purchase in its core brewing business. However, Sir Ian said the group would continue to add to its Czech and Chinese brewing interests and still aimed to expand into eastern Europe.

"The base has been restructured significantly over the last 6 months," he said.

"When we look forward I believe those three businesses, of leisure retailing, hotels and branded drinks, will exist. I very much hope the pub business and the brewing business will be much more international than they are now, and that the hotel business will be significantly larger."



Source: Bass, NatWest Securities forecast

Barclays and StanChart deny £36bn deal

By George Graham, Banking Editor

Standard Chartered and Barclays yesterday denied that they were in discussions, moving to quell speculation that they were in talks on a deal to create a £36bn ($60bn) international banking group.

Barclays said that "while it continues to monitor developments among its competitors throughout the financial services sector, it is not in discussions with Standard Chartered".

Standard Chartered, meanwhile, said it wished "to make clear that it is not in discussions with any party concerning a merger or takeover".

The two banks squabbled, however, over which chief executive had raised the subject of a possible combination.

Separately, Barclays announced that Sir Andrew Large, former chairman of the Securities and Investments Board, would become its deputy chairman on May 1. He will take over from Sir Peter Middleton, who is retiring but will remain a non-executive director of Barclays.

Sir Andrew, a former board member of Swiss Bank Corporation, is expected to establish links between Barclays Capital, the group's debt investment banking unit, and its business banking operations.

Standard Chartered's business has turned around after a series of difficulties in its far-flung banking empire, which covers Asia, Africa and the Middle East, resulting in a surge in its market capitalisation to a peak last year of £10.7bn ($17.86bn).

While it was often regarded as an attractive takeover target, its high valuation made it expensive.

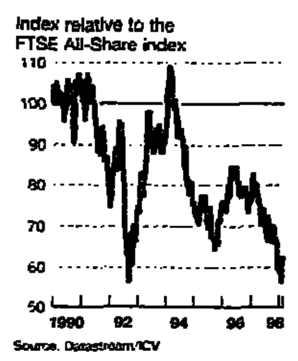
Today, its value has fallen sharply as a result of the economic turmoil in its core Asian markets. While that makes it more attractively priced for a bidder, it leaves the buyer in much greater uncertainty over the quality of its assets.

Martin Taylor, Barclays' chief executive, admires the way Standard runs its operations in Asia. However, he appears reluctant to consider acquiring the bank while the future of the Asian economies remains so uncertain.

LEX COMMENT

Urban housing

Are Britons' replacing their affection for green fields with a love of urban living? Anyone witnessing the mushrooming of coffee shops in London would be forgiven for thinking that the transition to a continental style café society is well under way. Supermarkets struggling to get permission for out-of-town developments are starting to return to the city centre. And yesterday it was the turn of John Prescott, deputy prime minister, to sing the praises of urban living with his new policy encouraging brownfield building developments.



Source: Datastream/ICV

Arguably Mr Prescott was doing nothing more than confirming what some of the more imaginative housebuilders have been doing anyway.

Brownfield sites are cheaper than greenfield ones because they tend to be in inferior locations and require some rehabilitation work. For imaginative housebuilders, this has offered an opportunity to make a decent development turn.

But there are limits to this process: the fact is that many brownfield sites are in places where people just do not want to live. Mr Prescott's comments favour the more entrepreneurial operators. But for most housebuilders, the more pressing issue is to recapture the affections of investors.

A discount to the market of 45 per cent, despite a benign backdrop, testifies to deep disillusion. A big difficulty is that many of the companies are small and illiquid. Perhaps it is time for the corporate financiers to sharpen their pencils.

Correction: Montanaro Holdings

An FT report yesterday inaccurately stated that three directors of Montanaro UK Smaller Companies Investment Trust had resigned after an internal disciplinary investigation.

In fact, the three directors, James Baker, James Cotton and David Shapiro terminated their service contracts and resigned as directors of Montanaro Holdings Ltd, Montanaro Company Ltd and Montanaro Investment Managers Ltd on the ground of breach of implied duty of trust and confidence. There have been no resignations from Montanaro UK Smaller Companies Investment Trust.

As stated in our report, two of the directors, James Baker and David Shapiro, were suspended pending a disciplinary investigation. It follows that no such investigation has been concluded. Solicitors, Finers, were instructed by the three to conduct an investigation into the company's affairs. The validity of the two suspensions is disputed and the three directors are considering legal action against the company. We apologise to all concerned for the inaccuracies in our report.

COMPANIES AND FINANCE: UK

US bottling sector stacks up

John Willman on the implications of Cadbury Schweppes and Carlyle Group's joint venture

The notoriously fragmented US independent bottling sector took one step closer to consolidation yesterday, following an unlikely alliance between a British confectionery and soft drinks group and a Washington-based venture capital outfit.

Cadbury Schweppes, which owns Dr Pepper-Seven Up, the third largest US soft drinks business, and the Carlyle Group, a blue-chip investment firm, confirmed they were combining to buy two mid-western bottlers.

They will pay $724m for Beverage America, based in Holland, Michigan, and Select Beverages of Darien, Illinois. The two businesses will be owned by a new company, American Bottling, in which Cadbury will own 40 per cent of the equity and Carlyle 60 per cent.

The two bottlers reported combined operating profits for 1997 of $61m on sales of $937m – minnows in comparison with the much more powerful bottling companies that distribute Coca-Cola and Pepsi Cola. But analysts believe American Bottling could soon target other independent bottling companies in a move to build up a powerful third force in the industry capable of challenging the two giants.

"There are 223 distributors in the US," said David Lang of stockbroker Henderson Crosthwaite. "The scope for further consolidation is enormous."

Yesterday, John Sunderland, Cadbury's chief executive, was unwilling to speculate on any further acquisitions by American Bottling – although he did not rule them out. He was concerned not to send out signals that might alienate Coke and Pepsi which distribute more than half the group's US soft drink output – including Dr Pepper.

But the merger is important in giving the British group a secure "route to market" for the 42 per cent of its sales which are outside the Coke and Pepsi systems. These include Seven Up, A&W rootbeer and Sunkist fizzy orange which are in more direct competition with Coke and Pepsi products than Dr Pepper.

American Bottling creates a company which handles almost a third of Cadbury's non-Dr Pepper US sales, a consolidation that offers the prospect of substantial economies of scale and much greater marketing clout. The two companies have nine plants and four administrative sites – the new venture expects to recoup restructuring charges of about $40m within two years.

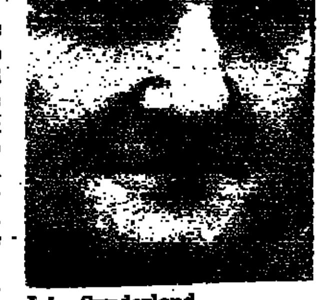
The two partners have agreed a five-year plan to invest in bottling plant and distribution which can be financed out of cashflow. An early priority will be to increase sales in the cold channel – high margin single servings sold out of chill cabinets in convenience stores and garages.

For Cadbury, the creation of American Bottling – planned with the advice of Schroders, the London investment bank – has one big advantage after a decade in which a series of ill-conceived acquisitions depressed earnings and held back the share price: as a joint venture, it limits the risk.

Cadbury will have half the seats on the eight-strong board, nominate the chairman and supply the chief executive. This will give it influence strong enough to ensure "strategic alignment", in Mr Sunderland's words.

Some $424m of the purchase price for the two bottlers, will come in bank loans. Cadbury's share of the $300m equity will be just $120m – and no further investment will be required unless American Bottling wants to buy more independents.

Perhaps just as important, the new venture appears to have Coke's implicit sanction – essential if it is not to be sunk by marketing broadsides from the number one brand. Coca-Cola last month agreed to the renewal until 2005 of the agreement under which Coca-Cola Enterprises, its US anchor bottler, distributes Dr Pepper.



John Sunderland

Thus there was a welcome on the London stock market for yesterday's announcement, when in December rumours of an outright purchase of the two bottlers caused Cadbury's shares to plunge. Its shares closed up 20½p to 756½p – at one stage surpassing last February's high of 760p.

But in Mr Sunderland, chief executive since 1996, the UK group has found a believer in value management. "This is a financially attractive investment that will create value and enhance earnings in the first full year," he said.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adwest Automotive	6 mths to Dec 31	112.2	(100.6)	7.26	(6.29♠)	5.7	(5)	2.3✱	Apr 8	2.3	-	7.8✱✱
Bowness Leisure Φ	Yr to Oct 31	2.45	(2.17)	0.326	(0.249)	28.3	(23.1)	7.5	July 1	5	7.5	5
Brewin Dolphin	Yr to Dec 31	48.1	(40.8)	7.22	(5.03)	20.6†	(15.1)	6.5	Apr 23	5.5	9.5	8
Community Hospitals	6 mths to Dec 31	33.3	(36.4)	6.05	(4.95)	11.9	(9.8)	4.4	May 8	3.9	-	11.5
Conister Trust Φ	Yr to Dec 31	-	(-)	0.963	(0.905)	3.99	(4.04)	1.6	Apr 15	1.6	2	2
Gyrus	6 mths to Dec 31	1.87	(0.014)	1.93L	(1.44L)	8.5L†	(8.4L)	-	-	-	-	-
Hibernian ♣	Yr to Dec 31	315.4□	(288.5□)	43.2	(31.8)	61.9	(44.7)	8.7	Apr 27	7	12.2	10.1
HSBC	Yr to Dec 31	-	(-)	4,971	(4,524)	125.7	(117.61)	30	Apr 29	26	50	41
Mayflower	Yr to Dec 31	392.7	(274.6)	33.3♠	(17.9♠)	10.23†	(5.32)	1.83	May 18	1.5	2.75	2.25
Regent Inns	6 mths to Jan 3	25.4	(20.6)	9.04♥	(5.99♥)	9.2†	(6.3)	1.3	Apr 20	1	-	3.3
TDG	Yr to Dec 31	529.1	(521.5)	30.8♠	(35.2♥)	15.73‡	(17.04)	5.5	May 15	5.5	9.5	9.5
Ultra Electronics	Yr to Dec 30	143.4	(123.6)	18.1	(14.1)	20.3	(15.1⌘)	4.8	Apr 30	-	7.2	-
Wyndham	Yr to Dec 31	81.5	(70.3)	1.53♠	(2.19♠)	33.08	(56.55)	5	May 15	-	5	-
Zotefoams	Yr to Dec 31	24.4	(21.4)	7.86	(6.9)	15.6	(12.6)	4.5	Apr 24	4	6.7	6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen C'tible	6 mths to Dec 31 ★	111.18	(100.9)	0.873	(0.837)	3.84	(4.12)	1.6♦	Apr 15	1.6	-	6.8
Athelney Trust Φ	Yr to Dec 31	86.5	(74.8)	0.021	(0.021)	1.2	(1.2)	1.1	May 29	1	1.1	1
Fidelity Euro Values	Yr to Dec 31	315.81	(248.58)	0.473	(0.862)	0.83	(1.26)	0.6✱	May 19	0.6	0.6	0.6
Hend'son Greenfriar	Yr to Dec 31	555.2	(544.3)	0.961	(0.846)	7.97	(7.02)	5.25	Apr 1	4.95	7.6	7.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ✱Foreign income dividend. ✱✱Includes FID element. †On increased capital. ΦAim stock. ♣Irish currency. □Total written premiums. ‡On reduced capital. ⌘Pro forma. ★Comparatives restated. ♦Third interim, makes 3.733p to date; special of 3.2p also declared.

Court rejects gay travel claim

EUROPEAN COURT

The refusal by an employer to allow travel concessions to the person of the same sex with whom a worker has a stable relationship does not constitute discrimination prohibited by the equal pay provisions of the EC Treaty and Community legislation, the European Court of Justice ruled last week.

The case arose out of proceedings before the Southampton industrial tribunal between Ms Grant and her employer, South West Trains Ltd. Under the terms of Ms Grant's contract of employment, she was entitled to reduced rate train travel. South West Trains also undertook to provide this benefit to spouses, dependants and to "common law opposite sex" spouses where there existed a "meaningful relationship" of at least two years' duration.

Ms Grant had applied for these travel concessions for her female partner, with whom she declared that she had had a "meaningful relationship" for over two years. South West Trains refused this application on the ground that for unmarried persons travel concessions would only be granted for a partner of the opposite sex.

Before the industrial tribunal Ms Grant argued that the refusal constituted discrimination based on sex, contrary to the Equal Pay Act and to provisions of the EC treaty and secondary legislation. The industrial tribunal considered that the case turned on issues of Community law, and therefore referred a number of questions to the European Court.

The Court observed that the refusal to allow Ms Grant the concessions was based on the fact that she did not satisfy the prescribed contractual condition. That condition was applied regardless of the sex of the worker concerned. Travel concessions would be refused to a male worker if he were living with a person of the same sex, just as they were to a female worker living with a person of the same sex. Since the condition applied in the same way to female and male workers, it could not be seen as constituting discrimination directly based on sex.

The Court considered whether persons in a stable relationship with a partner of the same sex were in the same situation as those who were married or had a stable relationship outside marriage with a partner of the opposite sex. Having reviewed the law in the member states and under the European convention on human rights, the Court concluded that they were not regarded as equivalent.

Consequently, an employer was not required by Community law to treat the situation of a person who had a stable relationship with a partner of the same sex as equivalent to that of a person who was married to or had a stable relationship outside marriage with a partner of the opposite sex. It was for the legislature alone to adopt, if appropriate, measures which might affect that position.

Finally the Court considered the submission by Ms Grant that under the case law of the Court differences of treatment based on sexual orientation were included in the prohibition on discrimination based on sex as defined in the EC treaty. The Court reviewed its case law concerning gender reassignment, and also noted the provisions contained in other national and international treaties.

However the Court concluded that although respect for the fundamental rights which formed an integral part of the principles of Community law was a condition of the legality of Community acts, those rights could not in themselves have the effect of extending the scope of the treaty provisions beyond the competences of the Community. Community law did not cover discrimination based on sexual orientation, but the Treaty of Amsterdam would allow the Council, following a unanimous vote, to take action to eliminate various forms of discrimination, including discrimination based on sexual orientation.

C-249/96 Lisa Jacqueline Grant v South West Trains Ltd (ECJ, FC) February 17 1998

BRICK COURT CHAMBERS, BRUSSELS

Fears that European electronic commerce lacks a proper regulatory basis and will suffer by comparison with the US have led the European Commission to develop ambitious plans for harmonisation. By the end of the next decade a significant share of retail commerce is expected to be on the internet, putting pressure on regulators to provide easy and efficient means of payment.

"Electronic commerce" is a term whose usage varies according to context. It is not confined to the internet but includes other applications, such as videotex on which the French Minitel online information network is based.

Last year the Commission, which wants a framework for electronic commerce by 2000, identified four areas calling for a substantial contribution by regulators. They must:

- Devise a supervisory framework for the issue of electronic money.
- Provide guidance for issuers and users on transparency, liability and redress procedures.
- Clarify the application of the EU's competition rules to achieve a balance between interoperability and vigorous competition.
- Tackle the risk of fraud by improving security.

As a first step, in its 1997 recommendation, the Commission revisited its 1987 and 1988 recommendations governing the relationships between card issuers and users.

In the 1980s the Commission focused on payment cards, as cheques were governed by rules that differed between states. It considered then that the payment card was the payment system of the future and no member state other than Denmark had, at that time, laid down its own rules.

The 1987 recommendation covered relations between banks and traders. That period marked the start of work on interoperability – the possibility of using a card throughout the EU – which was to be achieved largely by commercial agreement.

The 1988 recommendation concentrated on the relationship between banks, cardholders and issuers. The main problem was the cardholder's liability if the card was lost or stolen. The recommendation was based on the principle that a reasonably behaved consumer should be liable only to a limited extent. The debit, prepaid and stored-value cards appearing since then need to be covered by an updated text. The main issues are information, security and liability.

The 1997 recommendation covers information in contracts for transactions by electronic payment, enabling those involved to make a better informed choice and contributing to increased competition. Information also needs to be given after electronic transactions have been made, such as the amount debited to a cardholder in the currency of billing and the amount shown in foreign currency.

To support the objective of transparency, the recommendation sets out minimum standards so that, for instance, a card issuer must give cardholders at least one month's notice before altering terms and conditions. Finally, it requires member states to provide adequate means to settle disputes between issuers and cardholders. If the new recommendation is not implemented by member states by the end of 1998, the Commission proposes to issue a directive.

In the UK, banks and building societies have implemented a voluntary code of banking. The Banking Code already incorporates many of the Commission's recommendations but the 1997 recommendation is intended to cover the issuing of electronic money. The code covers electronic purses only in that it limits the electronic purseholder's liability to a maximum of £50 in the event of loss, theft or misuse, except in cases of fraud or gross negligence, nor does it cover EU-wide payment instruments.

It can be argued that financial institutions should revisit the code to cover more fully new electronic money products. They will need to look at their procedures following last year's adoption of the cross-border credit transfer directive, which must be implemented by August 1999. It requires that customers be informed of their rights before and after a cross-border credit transfer.

Although cash itself will not apply to the internet, the Commission must address the problems regarding electronic cash and home banking. The main issue is who will be permitted to provide these services and whether providers should be restricted to supervised and controlled financial institutions.

In the UK this involves the Banking Act 1987; non-banks cannot take deposits from the public and can be prevented from issuing electronic value. Mondex, the UK-based Mastercard subsidiary that has pioneered electronic cash systems, has, however, sought to overcome this obstacle. It says Mondex electronic value is similar to travellers' cheques. They withdraw money from a bank account or a payment of cash in exchange for a cash instrument that may be used to buy goods or services, which may then be redeemed for cash.

The law is unclear. The Commission has therefore published draft proposals for a directive laying down minimum requirements for "electronic money" institutions, such as initial capital and ongoing own funds requirements, investment asset limitations, verification and supervision by member states and the protection of users in the event of insolvency.

A draft electronic signature directive is another priority. A digital signature is a coded message proving the identity of each party in an electronic transaction. The intention is to give the same legal recognition to electronic signatures as to written signatures across the EU that would boost online commerce and internet banking. The US has taken the lead in legislation.

The Commission plans to address fraud and counterfeiting, but is against imposing general standards. The EU stance is encouraged by the high level of response to the SET (secure electronic transaction) protocol for internet transactions developed by MasterCard and Visa.

This offers customers, retailers and banks a single secure standard, ensuring the confidentiality of payment and ordering and the integrity of transmitted data.

The Commission will issue a competition notice to clarify the application of competition rules in this area. It also intends to deal with dual pricing where consumers pay more than the retail price for goods and services when they use certain debit or credit cards, and to set out the legal position relating to commissions charged by banks to handle credit and debit card payments.

General international practice is needed. An established legal framework is vital if businesses are to have the confidence to make greater use of electronic commerce.

The author is a partner of London solicitors, Church Adams Tatham

Quest for card code

Philip Krauss examines EU plans to develop a framework for electronic commerce

The issue is who will be permitted to provide these services and whether providers should be supervised financial institutions

LEGAL BRIEFS

Dibb hires to spearhead EU expansion

Dibb Lupton Alsop, the UK national law firm, has hired four members of the former Eversheds team in Brussels to spearhead its push into the European Union. The new Dibb Lupton Brussels office will be headed by former Eversheds partner, David Church, and will form part of Dibb's communications and technology group. The other members of the office are US lawyer, Frank Fine, an expert on European competition law, solicitor Mike Pullen, an internal market and competition lawyer and Dutch lawyer Birgit Ris, an EU telecommunications and environmental law specialist.

In partnership

Lawyers, accountants and management consultants specialising in partnership work have formed an association to facilitate exchange of information and knowhow on partnership-related matters. The Association of Partnership Practitioners will by chaired by Ronnie Fox, senior partner of Fox Williams, the City law firm, and an expert on partnership law. The association will make representations on behalf of members on topics such as the review of partnership law being undertaken by the Law Commission, the introduction of limited liability partnerships in the UK and changes to the basis of partnership taxation proposed by the Inland Revenue.

Southern deal

South of England commercial law firms, Bond Pearce and Hepherd Winstanley & Pugh, are to merge on May 1, creating the largest law firm in Southampton and one of the top 10 regional practices in the UK.

BUSINESSES FOR SALE

INTERNATIONAL CAPITAL MARKETS

Europe retreats after strong start

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

European government bond markets started strongly yesterday on the news of an agreement between Iraq and the United Nations, but prices drifted lower for much of the day.

There was some caution in the US in the lead-up to Federal Reserve chairman Alan Greenspan's two days of testimony before Congress, which begins today. Traders also said there was some holding back by investors in advance of some substantial bond issues over the next week.

GERMAN BUNDS had hit new highs by mid-morning, with the March contract rising 0.56 to 108.03, buoyed by some bond-friendly comments emerging from the G7 summit.

However, it ran into profit-taking during the afternoon, as the rally on Wall Street fizzled out, and the March contract settled at 107.61, up just 0.14 on the day. Turnover was moderate at 150,000 contracts in London.

The Bavarian state issued more benign inflation data during the afternoon, but this failed to have any impact on drifting bond prices.

Nonetheless, Hans Gunasekera, bund specialist at UBS Securities, said: "There is no real selling pressure. The inflation outlook is good, and there are no clouds on the horizon."

The yield curve had flattened considerably during the morning, but the longer maturities gave up most of their gains as the day progressed.

However, it was UK GILTS that suffered most from the reversal in the US. The March contract had also risen sharply on news from Iraq, but it settled down $\frac{5}{32}$ at 123⅞.

Joanne Collins, senior market strategist at Nomura International, said: "The back months of the short sterling have been hit by fears that interest rate cuts may not be as quick and aggressive as the market has anticipated, and this has worked itself up the yield curve."

Certainly, more good news on the economic front, in the form of a downward revision in fourth-quarter GDP estimates, was ignored. The spread against bunds in the cash market widened by five basis points to 115 points.

ITALIAN BTPs followed the pattern of bunds, hitting new highs in the morning but settling at 118.56, down 0.39 from its intra-day peak. The spread against bunds remained at 39 basis points.

FRENCH OATs settled 0.28 higher at 104.10, only marginally off its high for the day, but turnover in Paris was relatively light.

US TREASURIES were mixed in calm morning trading, as speculation surrounded the UN-led deal in Iraq. By early afternoon the benchmark 30-year bond had lost $\frac{1}{16}$ to 103½, sending the yield up to 5.874 per cent.

Shorter-term issues also weakened. The 10-year note was down $\frac{1}{16}$ to 99⅝, yielding 5.549 per cent, while the two-year note lost $\frac{1}{32}$ to 99$\frac{28}{32}$, yielding 5.424 per cent.

Traders said prices moved higher early in the session, on news of a possible settlement of the UN's stand-off with Iraq, but the tone had changed by mid-morning.

"Once New York trading commenced it drifted off, as the dollar rose and oil prices fell," said Marcello Frustaci, senior vice-president and trading manager at Daiwa Securities America.

Bond investors will today be waiting for Mr Greenspan's outlook on the Asian crisis and whether his view has changed in recent weeks.

"If he lessens the risk, saying it is not as bad as they thought before, I think the market will have a problem and will trade off from here," said Mr Frustaci.

Belgium launches 30-year offering

By Edward Luce

Belgium has joined the growing ranks of European sovereign borrowers in the 30-year maturity with an OLO issue in that tenor.

The BFr32.455bn offering, launched at a yield of 5.57 per cent, follows Spain's debut international 30-year E1bn bond last week.

Analysts say European governments are likely to be increasingly regular borrowers at the long-end of the yield curve as European monetary union approaches. In addition, cyclical trends are enhancing the attractiveness of tapping funds in longer maturities.

"The flattening of the yield curve across the board in Europe and the low level of real interest rates is a good opportunity for governments to extend the curve to 30 years," said Roger Bates, head of Emu project at Deutsche Morgan Grenfell. "It also saves governments the hassle of regular refinancing of shorter-term bonds."

Until recently, few European governments had a benchmark in the 30-year maturity, although most still lack liquid securities in that tenor. In contrast, the US Treasury has long maintained a well-supplied 30-year benchmark.

The onset of Emu, however, and the deepening of Europe's capital markets looks likely to result in a more US-style bond market in Europe. This, coupled with the growth of private pension funds in continental Europe, is boosting demand for longer-term government securities. Among others, France is expected to look at 30-year domestic bond issues in the near future.

Bass funds bid with $3bn loan facility

By Simon Davies

Bass's $2.9bn bid for Inter-Continental Hotels is to be funded by a $3bn syndicated loan that was signed up in a matter of days last week – a factor that proved significant in its victory against a number of other bidders.

Given the speed with which it had to access funding, and the state of the syndicated loan market – where pricing has been rising in the face of the withdrawal of a number of banks – Bass was in a weak negotiating position.

Some banks had offered to participate only at prices of more than 40 basis points above Libor, compared with the 15 basis point margin Bass paid for its previous syndicated loan.

However, the $3bn facility was finally signed up at 22½ basis points over Libor for the first two years, and 27½ for the final three years.

There were few obvious benchmarks for the deal. One banker said: "It was one of the hardest deals I have had to price". BAT Industries paid 40 basis points for its jumbo loan last October, but it was borrowing an additional $5bn.

However, a number of bankers outside the syndicate said that Bass had got a good price.

The joint book-runners were J. P. Morgan and Barclays Capital, while Lloyds Bank, Deutsche Morgan Grenfell, Citibank and Midland Bank also participated. The deal will not be syndicated until the Inter-Continental transaction is completed.

Antony Stern, director of treasury at Bass, said: "Given the uncertainty in the loan market and the wide range of prices that were put to us, this pricing looks reasonably aggressive."

Borrowers in the loan market have been facing rising margins since the Asian crisis spread to Korea and Japan in late 1997.

Japanese banks have substantially withdrawn from the market, having previously provided around 15 per cent of its capital. Meanwhile, mergers of commercial and investment banks have removed some funding capacity.

Pricing has therefore increased, and volumes of so-called plain vanilla loans have fallen sharply in the early stages of the year.

The $3bn Bass facility is in two tranches: a $1.75bn term loan and a $1.25bn revolving loan. Commitment fees are 11 basis points and 12¼ basis points, respectively.

Bass was advised by Schroders.

Standard & Poor's yesterday lowered its corporate credit rating for Bass from A+ to A and the outlook was switched to negative, although the short-term rating of A-1 was maintained. Bass has $900m of bonds outstanding, and a $1bn commercial paper programme.

"Bass's limited financial flexibility for the rating means that a downgrade is possible if hotel industry conditions deteriorate or the financial profile weakens further", S&P wrote.

However, Mr Stern said: "The change is understandable, but not material."

Cades offers guilder issue

INTERNATIONAL BONDS

By Samer Iskandar and Edward Luce

With the exception of Cades, the French state-backed entity set up to manage the social security system's accumulated debts, primary market activity was limited yesterday to a few small and medium-sized deals.

However, investors are bracing themselves for a pick-up in issuance. Fannie Mae, Sony, the World Bank and the European Investment Bank are said to be preparing benchmark issues of $1bn or more.

CADES launched the third (guilder-denominated) tranche of its euro-fungible programme. The issue, lead-managed by ABN Amro, will be merged with existing bonds in French francs and D-Marks after the introduction of the single European currency next January.

Yesterday's deal was priced to yield 18 basis points more than 10-year Dutch state loans, the same spread as the D-Mark tranche. The French franc-denominated bonds had been issued at a yield spread of 15 basis points over OATs.

Cades also tapped the dollar sector for $200m by reopening an existing floating-rate note issue maturing in December 1999.

The EUROPEAN INVESTMENT BANK and the WORLD BANK targeted retail investors with issues of £300m and £150m respectively. ABN Amro, which lead-managed the EIB's five-year add-on, said retail buyers in continental Europe were still bullish on sterling's outlook.

Investors also continue to be attracted by the relatively high coupons on offer in that currency.

Although both of the deals were priced to yield relatively tight spreads (23 and 15 basis points over the five-year and three-year gilts respectively), bankers anticipated strong demand for the offerings over the next few days.

Both issues were trading at their re-offer levels after launch last night.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Cades(a)‡	200	(a1)	99.998	Dec 1999	0.05	-	Deutsche Morgan Grenfell
Rep Natl Bk of New York	100	9.00(a)#	99.613R	Mar 2001	0.50R	-	Lehman Brothers
Eksportfinans*	50	5.20(q)	100.00	Mar 2002	1.20	-	IBJ Intl/New Japan Secs
STERLING							
Wellington Pub. A(b1,q,ß)	160	6.735	99.9658R	Jan 2029	0.625R	+84(8%-2015)	Morgan Stanley DW
Wellington Pub. B(b2,q,ß)	51	7.335	99.9721R	Jan 2029	1.50R	+145(8%-15)	Morgan Stanley DW
European Inv'ment Bank(c)	200	7.00	103.059R	Dec 2003	0.25R	+23(6¾Dec03)	ABN Amro
World Bank	150	6.375(e)	99.4365R	Nov 2001	0.1875R	+15(7%Nov01)	Société Générale
GMAC of Canada	100	6.60	98.875R	Mar 2004	0.35R	+60(6¾Nov04)	HSBC Markets
FRENCH FRANCS							
McDonald's Corp	2bn	5.125	99.29R	Mar 2008	0.375R	+29(i)	Société Générale
ITALIAN LIRE							
Citicorp	300bn	(d)	99.92R	Mar 2003	0.06R	-	(d1)
GUILDERS							
Cades(e)	2bn	5.125(i)	99.80R	Oct 2008	0.325R	+18(i)	ABN Amro
Rabobank Nederland	750	5.25	99.19R	Mar 2013	0.30R	+21(i)	Rabobank International
EUROS							
Merrill Lynch & Co	300	5.125(i)	99.475R	Mar 2005	0.35R	+40(i)	Merrill Lynch/Paribas
AUSTRALIAN DOLLARS							
Kingdom of Denmark	100	5.625(i)	101.21	Dec 2003	2.00	-	TD Securities
NSW Treasury Corp	100	5.50(e)	100.265	Dec 2003	2.00	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. +Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $500m. Plus 77 days accrued. a1) 3-mth Libor -¼%. b1) Average life: 21.4 yrs. b2) Av life: 18.5 yrs. b3) Class C of £20m was privately placed. c) Fungible with £300m. Plus 88 days accrued. d) 6-mth Libor +1/2bp. d1) Joint: Bear Stearns, Cabot, Cariplo, Citibank. e) Plus 29 days accrued. Fungible with DM3bn and FFr8bn upon Emu. i) Over interpolated yield. l) Long 1st coupon. q) Quarterly. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

[illegible]

London closing. *New York mid-day. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents. Source: Interactive Data/FT Information

10 YEAR BENCHMARK SPREADS

[illegible]

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

[illegible]

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

[illegible]

New York closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الأرشيف

CURRENCIES AND MONEY

Iraqi agreement causes dollar to fall

MARKETS REPORT

By Richard Adams

The US dollar fell against the D-Mark on foreign exchange markets yesterday, after news of an agreement in the international dispute with Iraq.

The dollar weakened to a two-week low against the D-Mark after Kofi Annan, the United Nations secretary-general, reached a written agreement with Iraq. The dollar finished trading in Europe at DM1.7988, compared with DM1.8318 at the end of last week.

The Gulf news helped cap the dollar's gains against the yen after Tokyo trading, in the wake of disagreements between the US and Japan at the Group of Seven leading industrial nations meeting over the weekend.

The dollar's fall was extended during early New York trading, when it fell below what was thought to be a support level at DM1.7980.

Sterling followed the dollar lower against the D-Mark, with latest data showing downward revisions to fourth quarter UK GDP figures and a burgeoning UK trade deficit. The pound tumbled by nearly 2.5 pfennigs, compared with closing prices on Friday. It ended at DM2.9580.

The Swiss franc also fell against the D-Mark, after the Iraq agreement reduced the Swissie's safe-haven role and what traders said was another injection of liquidity at 0.75 per cent by the Swiss National Bank, which has repeatedly undercut its 1 per cent official discount rate.

The Norwegian krona was also lower against the D-Mark, as oil prices fell sharply in the wake of the UN-brokered deal.

Elsewhere, the Bank of Greece intervened several times to prop up the drachma, after its currency was hit following warning of a possible ratings downgrade last week by Moody's.

■ The weekend's G7 meeting resulted in pressure on the yen, after criticism that Japan could do more in fiscal stimulus measures to help its own economy.

But Hikaru Matsunaga, Japan's finance minister, firmly rebuffed the point. "I felt the economic steps our government has taken have not necessarily been fully understood."

The Japanese response has caused the currency market to mark down the chances of further action to come.

"The bottom line from this is that the immediate risk to dollar-yen from a more concerted shift in Japanese fiscal policy has been neutralised, at least for the next few months, and those accounts that had covered or hedged their short yen exposure over the last two months are likely to begin to rebuild their positions," said Paul Meggyesi, Deutsche Morgan Grenfell's currency analyst in London.

Ian Gunner, foreign exchange strategist at SBC Warburg Dillon Read in London, said selling pressure on the yen came during Asian trading, while Europe continued its lack of interest in dollar-yen trading.

Mr Gunner said the G7 meeting failed to produce tangible results, and was surprising only for the public acrimony between the US and Japan.

■ *Michael Petley, director at the Ecu Group*, points to several interesting technical factors weighing on the US dollar and sterling. Mr Petley says the market remains dominated by dollar bulls: "They are unable to think anything else can go up, because of problems in the rest of the world."

Mr Petley thinks yesterday's fall by dollar against the D-Mark is a clear breakout on the downside, after the dollar's continuing failure to break through DM1.8450, and its pattern of lower 'highs'.

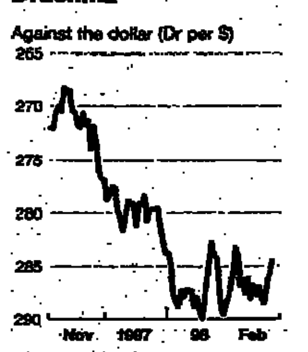
"It would do neither the dollar or sterling any harm in the long term to *come back 5 per cent or so*," he said.

■ Greece's problems – provoked by Moody's announcement on Friday that the country was being placed on a credit watch for a possible ratings downgrade – led the central bank to buy drachma for dollars to stop its fall.

Dealers said the Bank of Greece also sold 200m ecu, $20m and DM22m at the fixing. Athibor, Greece's one-month benchmark money rate, rose to 17.52 per cent, compared with Friday's 15.23 per cent.

Drachma

Against the dollar (Dr per $)



Source: Datastream/ICV

■ Pound in New York

Feb 23	—Latest—	— Prev. close —
£ spot	1.6475	1.6380
1 mth	1.6452	1.6357
3 mth	1.6435	1.6304
1 yr	1.6206	1.6108

■ OTHER CURRENCIES

Feb 23	£	$
Czech Rp	55.6271 - 55.7166	33.8570 - 33.8970
Hungary	340.348 - 340.575	207.150 - 207.200
Iran	4931.10 - 4929.00	3000.00 - 3000.00
Kuwait	0.5003 - 0.5010	0.3045 - 0.3048
Peru	4.6734 - 4.6319	2.8140 - 2.8180
Poland	5.8080 - 5.8187	3.5350 - 3.5400
Russia	9.9617 - 9.9592	6.0570 - 6.0590
U.A.E.	6.0342 - 6.0375	3.6727 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Feb 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	4	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	6	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	6	[illegible]	[illegible]	7.00	5.50	5.91
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.40	5.43	5.45	5.49	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

The FT has replaced the Libor FT London interbank fixing rate with the BBA London rate. Any comments should be sent to Marion Jackson, Financial Editor, at the FT.

EURO CURRENCY INTEREST RATES

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association

* In administration

GREEK EXTERNAL STERLING DEBT

Assented Bonds of the 5% Loan of 1881
Assented Bonds of the 4% Loan of 1887
Assented Bonds of the 4% Loan of 1889
Assented Bonds of the 4% Loan of 1910
Assented Bonds of the 5% Loan of 1914
Assented Bonds of the 7% Loan of 1924
Assented Bonds of the 6% Loan of 1931
Funding Bonds of the 4% Loan of 1887
Funding Bonds of the 4% Loan of 1902

Hambros Bank announces on behalf of the Ministry of Finance of the Hellenic Republic that the sinking funds obligation of 1997 has been met by the drawing of Bonds as detailed below:–

Assented Bonds Drawn for Redemption:–

£32,400 nominal of the 5% 1881 Assented Bonds have been drawn (represented by 324 Bonds of £100 nominal). £49,600 nominal of the 4% 1887 Assented Bonds have been drawn (represented by 248 Bonds of £200 nominal). £112,920 nominal of the 4% 1889 Assented Bonds have been drawn (represented by 486 Bonds of £20 nominal and 1,032 Bonds of £100 nominal). £95,498.35 nominal of the 4% 1910 Assented Bonds have been drawn (represented by 3,183 Bonds of £19.85 nominal and 814 Bonds of £39.70 nominal). £398,151.30 nominal of the 5% 1914 Assented Bonds have been drawn (represented by 20,058 Bonds of £19.85 nominal). £310,300 nominal of the 7% 1924 Assented Bonds have been drawn (represented by 258 Bonds of £100 nominal and 569 Bonds of £500 nominal). £433,993.97 nominal of the 6% 1931 Assented Bonds have been drawn (represented by 2,050 Bonds of £133.33 nominal and 241 Bonds of £666.67 nominal).

Funding Bonds Drawn for Redemption:–

£51,600 nominal of the 4% 1887 Funding Bonds have been drawn (represented by 926 Bonds of £50 nominal and 53 Bonds of £100 nominal). £100 nominal of the 4% 1902 Funding Bonds have been drawn (represented by 2 Bonds of £50 nominal).

Bonds should be represented with coupons attached as follows:

Assented Bonds 1881 5% Coupons 72 – 80 attached
Assented Bonds 1887 4% Coupons 72 – 80 attached
Assented Bonds 1889 4% Coupons 71 – 80 attached
Assented Bonds 1910 4% Coupons 71 – 80 attached
Assented Bonds 1914 5% Coupons 72 – 80 attached
Assented Bonds 1924 7% Coupons 71 – 80 attached
Assented Bonds 1931 6% Coupons 71 – 80 attached
Funding Bonds 1887 4% Coupons 72 – 80 attached
Funding Bonds 1902 4% Coupons 72 – 80 attached

Holders are asked to note that interest will accrue on the 4%, 5% and 6% Bonds up to and including the 15th March 1998 and the 7% Bonds up to and including the 16th March 1998 as shown below:–

Interest in respect of Bonds payable 15th March 1998:–

Loan	Bond Denomination	Interest Payable
5% 1881 Assented Bond	£100.00	£0.5139
4% 1887 Assented Bond	£200.00	£0.8222
4% 1889 Assented Bond	£20.00	£0.1822
	£100.00	£0.9111
4% 1910 Assented Bond	£19.85	£0.1806
	£39.70	£0.3617
5% 1914 Assented Bond	£19.85	£0.0193
6% 1931 Assented Bond	£133.33	£1.1555
	£666.67	£5.7777
4% 1887 Funding Bond	£50.00	£0.2055
	£100.00	£0.4111
4% 1902 Funding Bond	£50.00	£0.2055

Interest in respect of Bonds payable 16th March 1998:–

Loan	Bond Denomination	Interest Payable
7% 1924 Assented Bond	£100.00	£1.3125
	£500.00	£6.5624

In respect of the Bonds circulating outside the Hellenic Republic, presentation for payment may be made between the hours of 10.00 a.m. and 2.00 p.m. on any business day to Hambros Bank Ltd. Cashiers, 41 Tower Hill, London EC3N 4HA from whom the list of serial numbers of the drawn Bonds may be obtained. Bonds must be left for three clear business days for examination.

24th February 1998

COMMODITIES AND AGRICULTURE

Silver prices expected to remain buoyant

By Gary Mead

A resurgence in investment interest, combined with continued strong levels of industrial consumption, will keep silver prices buoyant through the rest of 1998, according to the latest annual silver market survey by CPM Group, a New York-based consultancy and research company.

Publication of the report is opportune; silver has been grabbing headlines following the disclosure on February 3 that Berkshire Hathaway – the financial services and investment company run by the investor Warren Buffett – bought 129.7m troy ounces of silver, then worth about $850m, between July 1997 and January this year.

The survey says that by the end of 1997 "reported and unreported silver bullion stocks reached extremely low levels, sufficient to meet just 4.4 weeks of annual fabrication demand, compared with 7.7 weeks a year earlier". Stock levels are estimated to have declined to as little as 20 per cent of those in 1990.

While supplies of newly refined silver from all sources (including government disposals, scrap recovery and mine output) rose by 5.8 per cent last year (to 584.m troy ounces), they were outstripped by industrial demand; the deficit in 1997 was 214.2m troy ounces.

In 1998 the deficit is expected to decrease to 160.1m troy ounces, due in part to sharply expanded supply, up by 12.5 per cent to 658m troy ounces.

Mine output of silver would have been even greater in 1997 but for negative factors affecting the copper, gold, lead, nickel and zinc markets: almost 80 per cent of newly-mined silver is a by-product of these metals. Average cash operating costs of primary silver production in 1997 were $3.54 per troy ounce, 4 cents an ounce lower than in 1996.

The world's largest silver producing country, Mexico, is expected to expand its mine production by 6.2 per cent this year, producing some 86m troy ounces.

Output in Peru, the second largest producer, rose by 14.5 per cent to 63m troy ounces in 1997; this year, the rate of growth is expected to slow to 4.8 per cent, with projected output of 66m troy ounces.

CPM forecasts that, globally, silver demand will range from flat to steady growth in 1998.

In 1997 photographic demand for silver was up by 4.9 per cent, totalling 242.1m troy ounces, and is set to increase by 1.5 per cent this year.

For jewellery, CPM forecasts growth to be 2.8 per cent, electronics by just 0.5 per cent, and all other sectors by 5 per cent.

However, in spite of some technological advances that have reduced the quantity of silver used in some industrial applications (for example, the amount of the precious metal used in X-ray film has been cut in half in the past 15 years), other trends are bullish.

Also, some countries are likely to register strong growth in demand for photographic film, which, at 30.3 per cent of total demand is the main non-decorative use for silver.

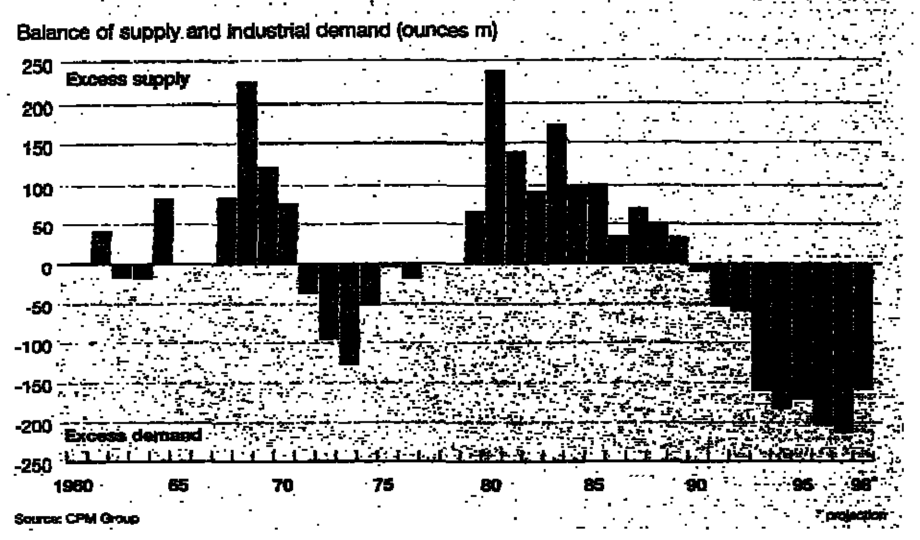
In China and Russia, the practice of taking photographs is currently growing at an estimated 11 per cent annually.

The threat posed to silver demand by the development of digital photography – which requires no silver-based film or paper – is given a low rating by CPM, which sees the technological and consumer hurdles as implying little threat "for at least the next several years".

Given the various indications contained in the CPM's report, it appears that Mr Buffett may have spotted an opportunity.

Ups and downs of silver

Balance of supply and industrial demand (ounces m)



Source: CPM Group

UK farming minister in warning on euro

By Alison Maitland

The European single currency could lead to greater volatility in the value of farm subsidies between countries in the euro zone and those outside, a UK agriculture minister said yesterday.

Lord Donoughue, food and farming minister, said the start of the euro would mean a thorough overhaul of the European Union's agrimonetary system, which is used to translate Ecu-based subsidies into national currencies.

He told a London conference on European monetary union, organised by Farmers' Weekly magazine, that *arrangements would still be* needed to convert Common Agricultural Policy payments into national currencies for countries not signing up next year.

"There my be greater volatility btween non-participating urrencies and the euro, beuse the Ecu reflects the lue of their currencies anthe euro will not," he said.

Measures ptecting the value of subsies in countries with stror currencies such as the Ulwould also end next year.

These measurs allow for a "freezing" of aimonetary rates for arable al livestock farmers when a currency rises steeply. UK frmers, for example, have bn saved £400m over two yrs by a freeze in rates.

The minister saithe successor to the agrimetary – *or green rate – sysn must* be simpler, more traparent and less costly. Theystem currently added mo than £900m to the annualost of the CAP.

However, difficult negotiations with those entering the euro lay ahead for those countries not participating, he warned.

States entering the single currency "may even want measures to stop the system benefiting the member states not taking part".

"We could not accept measures disadvantaging countries which do not participate in the single currency, or those not joining in the first wave," he said.

Those joining the euro would be keen to ensure the entry rate was as generous to farmers as the green rate and might demand transitional compensation if it was not, *the conference was told.*

Serious negotiations on a new system would start once participants in the single currency became known in May.

E German dairy transformed

Mattias Beuster is proud of his milking parlour. It might not seem much to those accustomed to the large, gleaming dairies seen in other parts of the European Union. But, says Mr Beuster, when he first came to the farm he manages at Tietzow, 22km north-west of Berlin, in the former east German state of Brandenburg, the cow sheds "looked like a 16th century painting by Albrecht Durer".

Since German reunification in 1990, Mr Beuster has made mistakes and the business still depends on EU and government subsidies. But it has been transformed. The path Mr Beuster has had to follow still lies ahead of many farms in east European countries hoping to *join the EU.*

The most dramatic change has been the sharp fall in numbers employed. Mr Beuster's 850 hectares – an extremely large farm by EU standards – can now be run by eight people rather than the 51 who used to be employed. His neighbour, Udo Folgart, who runs a 1,200 hectare mixed farm in Paaren, says agricultural employment there has fallen by 90 per cent since 1990.

Mr Beuster's farm had been a co-operative. After the Berlin wall came down, the original landowners were entitled to take their land out of the co-operative. But they decided not to, and the farm remained locally owned. After salaries, at about DM14 an hour, one of his largest costs is DM70,000 ($38,423) a year in rent to those owners.

In 1991, Mr Beuster's farm signed a 10-year contract to supply milk to a large dairy company in Brandenburg. *This, he now realises,* was naive. The company dictates the price, and the farm receives almost the lowest price in the region at 54 pfennigs a litre.

It also arranged two bank loans – a 20-year loan for DM800,000 and a 10-year loan for DM400,000. The interest rate is 8 per cent but the government pays 6 percentage points of that.

A new cow shed and the milking parlour were completed in 1993, allowing the 210 cows to live indoors during the winter. The farm produces about 3,500 litres of milk a day. Its turnover is DM1.6m a year, of which about one-third comes through subsidies.

Life is more difficult than before reunification, Mr Beuster believes. But his neighbour, Mr Folgart, is happier. The old security of employment may have gone, but before, he says, "production was the only figure that mattered". Now, with up to DM550,000 a year in subsidies, "all the costs are behind us and we put a little into investment. That is the goal".

Across the road from Mr Beuster's farm, is another face of eastern German farming. Last year, Weser Champignons, the biggest German producer of mushrooms, began cultivation in a big, purpose-built shed.

The DM7m investment will take more than 10 years to pay off because mushroom prices are low. The 25-30 tonnes of mushrooms that emerge weekly from the dark, humid shed sell for about DM4 a kg.

In order to get permission to build the shed, the company had to buy 40 hectares of land and guarantee 32 jobs. In fact, up to 45 people work in the shed. Most are hand-picking the mushrooms, for which they earn between DM9 and DM13 an hour.

While most farms have had to cut labour, Weser Champignons has shown there can be new jobs too.

Maggie Urry

Oil falls sharply on UN deal with Iraq

MARKETS REPORT

By Robert Corzine and Gary Mead

Oil prices fell sharply as traders *assessed the* impact of a diplomatic end to the Iraqi crisis.

Prices in London and New York hit lows last seen almost four years ago. In early trading on London's International Petroleum Exchange Brent Blend for April delivery fell to $14 a barrel, *down 67 cents* on Friday's close.

It later firmed a little on uncertainty as to whether the deal brokered by Kofi Annan, the UN secretary general, will prove acceptable to the US; in late trading April Brent was $14.18.

The big concern of the markets is whether a deal will pave the way for an early introduction of a much expanded oil-for-food programme, which could lead to much larger volumes of Iraqi crude competing for market share when oil demand usually moves into a seasonal downturn.

Base metal prices sagged on the London *Metal* Exchange yesterday as traders pointed to the continued slump in Asian markets as undermining any chance of a quick recovery.

Three-month copper came under pressure, dropping to its lowest since November 1993 in the morning session, *and finishing at $1,629,* down $40 on Friday's close.

Aluminium was also beaten down to a 16-month low of $1,430 a tonne before rallying to $1,433, down $19 from the previous close.

Tin dropped $60, to $5,280 a tonne. Billiton Metals forecast an excess of supply over *demand for tin of 5,000* tonnes for 1998.

Gold was "fixed" in London in the afternoon at $292.70 a troy ounce, $2.50 weaker than in the morning.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1420.5-1.5	1438-9
Previous	1444.5-45.5	1460.5-61.5
High/low		1450/30
AM Official	1413-15.5	1433.5-34
Kerb close		1433-4
Open int.	259,039	
Total daily turnover	101,495	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1258-63	1280-85
Previous	1273-78	1301-03
High/low		1285/1275
AM Official	1250-54	1280-81
Kerb close		1275-80
Open int.	4,868	
Total daily turnover	1,623	

■ LEAD ($ per tonne)

Close	504.5-5.5	519-20
Previous	506-7	520.5-21
High/low		520/511
AM Official	497.5-8.5	513.5-4
Kerb close		513-4
Open int.	32,083	
Total daily turnover	6,129	

■ NICKEL ($ per tonne)

Close	5325-35	5415-20
Previous	5425-35	5515-25
High/low		5500/5400
AM Official	5325-30	5415-20
Kerb close		5400/05
Open int.	58,530	
Total daily turnover	11,660	

■ TIN ($ per tonne)

Close	5265-75	5290-300
Previous	5310-20	5325-35
High/low		5320/5275
AM Official	5250-60	5270-75
Kerb close		5285-315
Open int.	14,191	
Total daily turnover	4,439	

■ ZINC, special high grade ($ per tonne)

Close	1013.5-4.5	1038.5-9.0
Previous	1017-18	1041-42
High/low		1041/1026
AM Official	1002-02.5	1027-27.5
Kerb close		1030-1
Open int.	73,441	
Total daily turnover	21,398	

■ COPPER, grade A ($ per tonne)

Close	1616-7	1642.5-3.5
Previous	1644.5-46.5	1671-73
High/low		1651/1627
AM Official	1622-23	1648-49
Kerb close		1629-30
Open int.	145,937	
Total daily turnover	66,469	

■ LME AM Official £/$ rate: 1.6359
LME Closing £/$ rate: 1.6445

Spot: 1.6470 3 mths: 1.6400 6 mths: 1.6330 9 mths: 1.6263

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	72.65	-1.35	73.25	72.50	127	416
Mar	72.75	-1.40	73.80	72.40	9,442	24,344
Apr	73.35	-1.35	74.00	73.30	96	2,219
May	73.70	-1.35	75.10	73.40	8,048	18,033
Jun	74.30	-1.30	74.90	74.30	38	2,012
Jul	74.65	-1.30	75.40	74.40	1,255	6,165
Total					19,151	74,344

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	293.20-293.70		
Opening	295.30-295.70		
Morning fix	295.20	180.418	434.239
Afternoon fix	292.70	178.096	425.293
Day's High	295.60-296.00		
Day's Low	292.30-292.70		
Previous close	296.90-297.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.08	6 months	2.85
2 months	3.05	12 months	2.82
3 months	3.02		

Silver Fix	p/troy oz.	US cts equiv.
Spot	395.65	647.50
3 months	394.45	642.65
6 months	395.15	641.00
1 year	394.00	634.55
Gold Coins	$ price	£ equiv
Krugerrand	293-295	178-180
Maple Leaf	-	-
New Sovereign	68-70	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	294.1	-4.0	29[illegible]	290.9	198	822
Mar	294.1	-4.0	29[illegible]	293.5	-	-
Apr	294.7	-4.0	298	293.5	22,164	84,856
Jun	296.5	-4.1	299	295.3	909	16,545
Aug	298.4	-4.1	300.	297.5	69	5,865
Oct	300.3	-4.1	300.	299.2	131	3,221
Total					25,309	175,066

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	373.7	-5.5	379.0	[illegible]9.5	1,177	9,626
Jul	371.4	-5.5	375.0	[illegible]8.5	20	874
Oct	370.4	-5.5	-	-	-	359
Jan	370.4	-6.5	375.0	[illegible]	-	36
Total					1,197	10,895

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	233.65	+0.35	234.50	23[illegible]	780	2,398
Jun	232.40	+0.35	234.00	23[illegible]	705	2,049
Sep	230.40	+0.35	230.00	230	1	406
Total					1,486	4,853

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Feb	646.8	-4.8	-	-	6,251	40
Mar	647.3	-5.0	653.0	636.0	[illegible]619	42,868
May	647.1	-0.4	650.0	634.5	[illegible]295	29,415
Jul	645.1	+1.8	650.0	633.0	662	13,608
Sep	646.1	+2.8	650.0	643.0	8	4,847
Dec	647.1	+3.8	648.0	634.0	262	10,433
Total					989	109,774

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	15.80	-0.44	16.03	15.51	60,[illegible]	111.0k
May	16.12	-0.40	16.31	15.86	15,3[illegible]	45,736
Jun	16.50	-0.31	16.63	16.21	8,0[illegible]	18,653
Jul	16.78	-0.28	16.84	16.51	1,4[illegible]	8,704
Aug	17.00	-	17.00	16.78	1,08[illegible]	5,079
Sep	17.22	-0.25	17.25	17.00	31[illegible]	1,985
Total					121,37[illegible]	[illegible]357

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	14.28	-0.39	14.44	14.00	19,193	[illegible]
May	14.75	-0.33	14.88	14.43	9,845	[illegible]
Jun	15.13	-0.32	15.17	14.90	1,531	[illegible]
Jul	15.48	-0.29	15.51	15.24	715	[illegible]
Aug	15.58	-0.44	15.60	15.55	563	[illegible]
Sep	15.88	-	15.88	15.55	1,040	[illegible]
Total					n/a	

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	43.90	-0.82	44.40	43.10	16,140	25,31[illegible]
Apr	44.25	-0.97	44.70	43.70	14,188	40,62[illegible]
May	44.90	-0.92	45.25	44.55	2,435	17,555
Jun	45.70	-0.72	46.42	45.30	1,053	16,554
Jul	46.55	-0.62	46.80	46.25	884	12,814
Aug	47.60	-0.37	47.80	47.25	335	8,983
Total					36,220	160,233

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	133.50	-4.75	134.75	131.25	9,615	27,133
Apr	136.00	-4.25	137.00	133.75	6,114	15,001
May	139.00	-3.75	139.25	136.50	2,040	11,670
Jun	142.00	-3.25	142.00	139.50	1,245	14,348
Jul	144.50	-3.50	144.75	143.00	1,005	5,663
Aug	147.25	-3.00	147.25	145.00	866	5,088
Total					23,000	118,155

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Mar	9.460	-0.050	9.470	9.450	75	1,595
Apr	9.350	-0.200	9.350	9.300	175	2,200
Total					545	13,670

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	2.190	-0.008	2.210	2.175	33,110	30,143
Apr	2.240	-	2.255	2.220	9,589	33,122
May	2.260	-0.010	2.285	2.250	2,444	15,365
Jun	2.280	-0.008	2.300	2.270	1,537	14,800
Jul	2.295	-0.027	2.305	2.290	1,486	11,400
Aug	2.305	-0.032	2.325	2.300	710	13,050
Total					57,131	211,817

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	49.10	-1.31	50.00	49.00	11,165	18,884
Apr	52.45	-1.06	53.00	51.95	11,603	36,240
May	52.95	-0.88	53.35	52.30	1,803	17,027
Jun	53.35	-0.68	53.65	52.50	2,183	11,357
Jul	53.45	-0.57	53.65	53.20	1,180	10,338
Aug	53.35	-0.30	53.40	53.25	952	4,818
Total					30,885	105,998

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	79.25	+0.85	79.25	78.40	85	670
May	81.70	+0.70	81.60	81.00	68	4,160
Jul	83.70	+0.70	83.75	83.00	63	785
Sep	80.75	+0.35	-	-	-	110
Nov	82.75	+0.35	82.75	82.40	36	1,721
Total					282	7,569

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Mar	325.00	+2.75	327.50	323.25	10,892	28,040
May	335.75	+2.75	337.00	333.50	6,212	31,438
Jul	344.50	+3	345.50	342.00	4,125	29,808
Sep	351.50	+4.5	353.00	349.50	246	3,316
Dec	362.50	+4	364.50	358.50	317	5,837
Jul	358.00	+1	-	-	4	37
Total					21,789	99,082

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Mar	265.75	-0.75	267.50	265.25	28,743	83,940
May	273.75	-0.75	275.50	273.25	14,551	90,939
Jul	279.50	-0.75	281.25	278.50	8,322	87,647
Sep	280.50	-0.75	281.50	279.50	795	14,018
Dec	281.00	-0.75	281.25	279.50	4,872	59,668
Mar	287.00	+1	288.00	285.25	365	4,154
Total					57,769	342,024

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Mar	74.25	+0.25	74.00	74.00	9	265
May	76.35	+0.25	-	-	-	275
Sep	77.75	-	-	-	-	7
Nov	79.75	-	-	-	-	375
Jan	81.75	-	-	-	-	72
Total					9	994

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Mar	662.50	-4.25	666.00	661.00	26,141	39,302
May	665.00	-2.75	668.50	661.00	13,333	48,502
Jul	670.25	-3.25	673.50	665.50	4,758	34,883
Aug	669.50	-4	673.00	668.00	240	6,006
Sep	657.00	-4	659.00	657.00	33	984
Nov	654.25	-4.75	658.00	650.00	1,576	16,283
Total					46,174	146,820

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Mar	26.91	-0.1	27.07	26.68	13,864	23,664
May	27.30	-0.09	27.47	27.05	13,315	35,779
Jul	27.66	-0.08	27.75	27.30	5,351	31,191
Aug	27.76	-0.08	27.95	27.27	478	5,944
Sep	27.19	-0.16	27.25	27.05	587	2,656
Oct	26.80	-0.25	27.05	26.65	393	2,886
Total					35,358	128,072

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Mar	179.7	-2.2	181.8	179.3	10,788	28,901
May	179.3	-1.9	181.5	179.0	10,861	46,306
Jul	181.5	-1.4	182.3	181.0	5,655	26,122
Aug	183.1	-1.1	183.8	182.9	1,270	9,382
Sep	185.1	-1.1	185.6	184.8	1,025	7,199
Oct	185.9	-1.2	186.5	185.6	251	2,324
Total					31,815	129,922

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Mar	70.0	-	-	-	-	-
Apr	73.0	-1.0	74.0	74.0	5	990
May	80.0	-2.0	-	-	-	180
Jun	85.0	-2.0	-	-	-	-
Nov	60.0	-	-	-	-	-
Total					5	1,307

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Mar	1039	-11	1040	1039	6	201
Apr	1110	-20	1140	1095	80	462
May	1110	-35	1190	1115	72	634
Jul	1030	-25	1025	1005	17	191
Oct	1115	-	-	-	-	121
Total					185	1,816

	Close	Prev
BFI	1030	1017

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	486.00	-3.50	491.00	483.00	109	437
Jun	515.00	-4.00	516.00	509.00	48	445
Total						

FUTURES DATA
All futures data supplied by CMS.

Tea The Tea Brokers' Association London: Strong demand but at generally easier rates with the exception of best liquoring and invoices and Bright Ceylons which were substantially dearer. Offshore: [illegible] demand at irregular rates with central [illegible] teas tending dearer. Landed [illegible] indications: best available, 288p ([illegible]), good, 204p (210p); good medium, 180p (198p); medium, 135p (140p). The highest price realised this week was 288p for a Burundi. The next report will be on March 10.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1001	+1	1002	991	1,654	32,874
May	1024	+1	1024	1012	1,749	37,019
Jul	1045	-	1046	1033	142	14,455
Sep	1066	-1	1067	1055	378	23,430
Dec	1090	-2	1090	1080	483	31,357
Mar	1119	-2	1120	1109	818	27,584
Total					5,340	187,699

■ COCOA CSCE (10 tonnes; $/tonnes)

Mar	1506	-	1510	1490	380	503
May	1553	+10	1555	1518	4,228	37,216
Jul	1586	+12	1588	1550	531	8,823
Sep	1612	+12	1605	1590	74	6,739
Dec	1645	+12	1645	1620	158	12,571
Mar	1675	+12	1668	1650	350	9,732
Total					5,679	79,151

■ COCOA (ICCO) (SDR's/tonne)

Feb 20	Price	Prev. day
Daily	1213.45	1227.78

■ COFFEE LIFFE (5 tonnes; $/tonne)

Mar	1765	+7	1765	1747	1,869	14,352
May	1753	+10	1755	1724	1,706	22,128
Jul	1735	+14	1729	1715	265	3,249
Sep	1719	+14	1721	1698	201	1,927
Nov	1691	+14	1695	1688	10	269
Jan	1680	+14	-	-	-	-
Total					4,071	46,088

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Mar	179.25	+4.20	180.00	174.25	839	2,287
May	176.55	+3.55	177.75	172.50	4,064	16,064
Jul	168.65	+3.90	169.00	165.00	1,105	5,205
Sep	158.15	+2.15	158.50	155.25	147	2,283
Dec	149.50	+1.40	149.50	148.00	74	2,344
Mar	143.50	+1.60	143.50	143.50	13	389
Total					6,244	29,429

■ COFFEE (ICO) (US cents/pound)

Feb 20	Price	Prev. day
Comp. daily	132.37	132.34
15 day average	131.01	131.18

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Mar	276.2	-	276.5	271.8	1,438	17,759
May	281.6	-	282.3	277.5	1,147	7,796
Aug	282.4	-	283.2	279.4	280	6,609
Oct	280.0	-	282.2	283.5	40	728
Dec	282.1	-	-	-	-	312
Mar	279.0	-	-	-	-	379
Total					3,904	33,628

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	9.82	-0.53	10.44	9.78	15,150	39,723
May	9.90	-0.48	10.14	9.53	23,850	82,042
Jul	9.47	-0.45	9.99	9.40	9,723	35,933
Oct	9.67	-0.53	10.20	9.60	4,542	40,507
Mar	9.81	-0.48	10.41	9.85	1,204	15,023
May	9.95	-0.45	10.42	9.98	598	2,041
Total					59,821	219,921

■ COTTON NYCE (50,000lbs; cents/lbs)

Mar	64.14	+0.24	64.60	63.85	7,444	2,200
May	65.10	+0.36	66.22	65.60	8,842	36,007
Jul	67.47	+0.52	67.55	67.00	3,538	21,533
Oct	68.95	+0.52	69.35	68.60	224	2,805
Dec	71.40	+0.53	71.50	70.95	2,531	22,522
Mar	72.53	+0.55	72.57	72.25	73	1,314
Total					22,791	88,065

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Mar	100.75	+0.25	102.10	99.60	5,872	12,083
May	104.00	+0.30	105.35	102.90	4,695	12,650
Jul	107.00	+0.30	108.50	106.25	695	5,508
Sep	110.00	+0.30	109.25	109.25	83	3,181
Nov	112.00	+0.35	113.25	112.00	3	2,591
Jan	114.00	+0.35	-	-	30	1,092
Total					11,481	38,336

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 23	Feb 20	month ago	year ago
1715.7	1722.4	1758.5	1990.2

■ CRB Futures (Base: 1967 = 100)

Feb 20	Feb 19	month ago	year ago
228.44	230.22	-	-

■ GSCI Spot (Base: 1970 = 100)

Feb 20	Feb 19	month ago	year ago
166.48	168.80	170.50	192.58

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,725	to	570,075
Aluminium alloy	-20	to	43,000
Copper	+850	to	376,400
Lead	+150	to	107,675
Nickel	-270	to	64,974
Zinc	-1,850	to	478,500
Tin	-255	to	10,125

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	63.875	-1.050	64.900	63.625	12,063	52,630
Jun	66.050	-0.775	66.875	65.775	3,084	28,491
Aug	67.625	-0.450	68.300	67.600	840	10,558
Oct	69.000	-0.725	69.850	68.850	249	5,790
Dec	70.275	-0.675	70.950	70.200	36	1,601
Feb	71.500	-0.400	71.925	71.500	12	264

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	50.200	-2.000	51.450	50.200	4,028	18,604
Jun	58.850	-2.000	59.900	58.850	2,410	11,052
Jul	58.800	-1.925	60.000	58.750	631	3,550
Aug	57.900	-2.000	58.250	57.900	170	1,712
Oct	55.675	-1.125	56.600	55.450	225	2,048

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	42.000	-1.725	42.000	40.725	45	33
Mar	40.675	-2.025	42.000	39.700	1,010	3,152
May	41.675	-2.325	43.350	41.000	794	3,870
Jul	41.950	-2.225	43.000	40.275	35	1,426
Aug	39.625	-1.950	41.600	39.500	17	429

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1300	139	156	1	11
1400	55	85	15	38
1500	16	38	72	86
■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
1500	128	164	5	24
1600	55	100	33	57
1700	16	54	94	113
■ COFFEE LIFFE	Mar	May	Mar	May
1650	127	161	24	76
1700	92	132	39	97
1750	63	108	60	123
■ COCOA LIFFE	Mar	May	Mar	May
975	63	88	14	18
1000	46	72	22	27
1025	34	57	35	37
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1450	-	-	-	-
1500	-	-	-	80
1550	13	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.74-1.84x	-0.67
Brent Blend (dated)	$13.45-3.48	-0.45
Brent Blend (Apr)	$14.18-4.21	-0.66
W.T.I.	$15.78-5.80x	-0.55

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$166-168	-3
Gas Oil	$132-134	-5
Heavy Fuel Oil	$64-67	
Naphtha	$150-152	-3
Jet fuel	$148-149	-5
Diesel	$137-138	-5

■ NATURAL GAS (Pence/therm)

Bacton (Mar)	9.45-9.50	-0.03

Petroleum Argus. Tel. London (0171) 359 8792

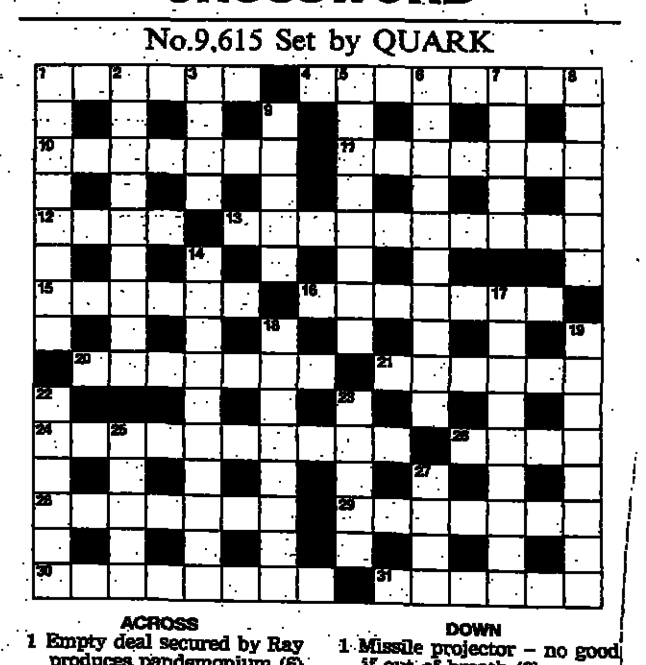
■ OTHER

Gold (per troy oz)♣	$293.45	-3.7
Silver (per troy oz)♣	650.50c	-10.0
Platinum (per troy oz.)	$377.00	-7.00
Palladium (per troy oz.)	$234.00	-1.00
Copper	82.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.58r	
Tin (New York)	248.5	-2.00
Cattle (live weight)	88.34p	-0.80*
Sheep (live weight)	78.93p	-2.61*
Pigs (live weight)†	68.68p	+3.09*
Lon. day sugar (raw)	$255.60	-4.00
Lon. day sugar (wte)	$272.50	-4.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)♥	51.50p	-0.25
Rubber (Apr)♥	52.50p	-0.25
Rubber (KL RSS No1)	307.00m	3.00
Coconut Oil (Phil)§	575.0y	
Palm Oil (Malay.)§	647.5	
Copra (Phil)§	$390.0y	
Soyabeans (US)	185.0	
Cotton Outlook'A' Index	67.65c	+0.05
Wooltops (64s Super)	392p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Feb/Mar. x Apr. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 754 head of pigs sold.

CROSSWORD

No.9,615 Set by QUARK



ACROSS

1 Empty deal secured by Ray produces pandemonium (6)
4 Pirate flogging a rum (dear) (8)
10 Six deliveries coming up late (7)
11 One makes edges neat and changes views to suit (7)
12 Man's vessel going round the west (4)
13 Bet his sum's wrong. It's to lose an opportunity (4,3,3)
15 Sympathetic response when 'Directions' contain nothing! (6)
16 Dissolute one's away for a share in the profits (4-3)
20 Erratic duet are without leader I learned (7)
21 The theatre of Racine, Marivaux, etc (6)
24 Drink table to employ once more (10)
26 Hard-working student pulls back (4)
28 Big race possibly calls for chest protector (7)
29 One with record in set being sculpted? (7)
30 Confuse hospital department's point of view (8)
31 The old ship's an art centre? Not right (6)

DOWN

1 Missile projector – no good if out of breath (8)
2 The ocean? One's in trouble when in it (4,5)
3 Some intermediary turning up as confidential assistant (4)
5 Area isn't prepared for such a well (8)
6 With which one figures things out (10)
7 Rally to book release from service (5)
8 Most unusual artist to take it easy (6)
9 An asset in some rituals (5)
14 Excellent stock carried by this? (5,5)
17 Cyclist can, going down to coast (9)
18 The English earl could be extremely refined (8)
19 Desire, solely in a dissolute way (8)
22 Damage to the church is uncommon (6)
23 Part of the wash ending grey-coloured? (5)
25 He's bound to be in order (5)
27 A mountain of bones (4)

Solution to Saturday's prize puzzle on Saturday March 7.
Solution to yesterday's prize puzzle on Monday March 9.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
BAII Asset Management Ltd					
10 Piccadilly, London W1V 0EE 0171 734 3700					
Intermarket NAV Feb 13 F		$8773.22		-5.91	-
Bank Von Ernst & Cie AG					
Marktgasse 63/65, 3001 Bern, Switzerland 0041 313291111					
UK Equity		£29.43		—	-
UK Smaller Co's Eqty		£28.18		—	-
Nth American Equity		$19.61		—	-
US Smaller Co's Eqty		$20.92		—	-
Pacific Basin Equity		$10.93		0.9	-
Japanese Equity		¥474		—	-
European Equity		DM20.91		—	-
Swiss Equity		SFr19.10		—	-
VB Sterling Fixed Int		£18.52		—	-
VB Sterling Fixed Int Div		£10.54		6.1	-
European Fixed Int		DM14.37		4.3	-
European Fixed Int Div		DM9.58		6.1	-
DM Bond Cap		DM9.94		—	-
DM Short Term Cap H 1½		DM10.22		5.0	-
Global Equity		$16.83		—	-
Global Bond		$13.90		—	-
Global Bond Div		$9.44		—	-
Global Managed		DM24.27		—	-
Swiss Franc Short Term Cap		SFr9.80		—	-
Swiss Franc Bonds Cap		SFr10.61		4.0	-
USD Short Term Cap H 1½		$10.00		—	-
DM Short Term Div H 1½		DM9.07		4.5	-
DM Bond Div H 5		DM10.51		—	-

For Banque Indosuez see Credit Agricole Indosuez

	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Frontrunner I (u)					
672 rue de Neudorf, Luxembourg 00 352 43887350					
European Value Fd		Ecu178.67		—	-
Global Bond Fd		DM185.13		—	-
Global Bond Fd		DM182.06		—	-
Sterling Bond Fd		£210.43		—	-
Danish Bond Fd		DKr193.93		—	-
Swedish Bond Fd 3		SKr140.29		—	-
German Bond Fd		DM111.17		—	-
Dollar Bond Fd 3		$105.92		—	-
Scandinavian Value Fd		Ecu279.39		—	-
Far East Value Fd		$87.54		—	-
North American Value Fd 5		$117.91		—	-
Danish Kroner Reserve		DKr113.38		—	-
Swedish Kroner Reserve		SKr119.64		—	-
German Mark Reserve		DM109.75		—	-
US Dollar Reserve 3		$104.20		—	-
ECU Reserve		Ecu113.06		—	-
Norwegian Kroner Reserve		NKr101.88		—	-
Bonus 2/1999		DM100.60		—	-
Danish Mortgage Bond Fd		DKr106.78		—	-
Danish Long Bond Fd 3		DKr113.25		—	-
Danish Equity Fd		DKr109.89		—	-
Swedish Equity Fd 5		SKr109.77		—	-
Norwegian Equity Fd 5		NKr98.30		—	-
European Equity Fd 5		Ecu116.26		—	-
GT Global					
(44) 171 710 4567 London (852) 2842 7300 Hong Kong					
GT Europe A		$92.41	97.27	-0.22	0.12
GT Europe A		£58.48	59.45	-0.13	0.12
GT Europe B		$92.91		-0.23	0.14

	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Morgan Stanley Sicav					
C/O First European Transfer Agent S.A.					
11 Boulevard Grand-Duchesse Charlotte					
L-1331 Luxembourg (352) 254701 511					
Asian Equity A		$14.71		—	-
Asian Equity B		$14.61		—	-
Asian Equity I		$14.79		—	-
Emerging Gwth Stk A		$17.71		—	-
Emerging Gth B		$17.60		—	-
Emerging Gwth Stk I		$17.82		—	-
Emerging Mkts A		$13.01		—	-
Emerging Mkts B		$12.96		—	-
Emerging Mkts I		$13.08		—	-
European Eqty A		Ecu22.03		—	-
European Eqty B		Ecu21.91		—	-
European Eqty I		Ecu22.18		—	-
Global Equity A		$29.06		—	-
Global Equity B		$28.87		—	-
Global Equity I		$29.23		—	-
Japanese Equity A		¥907.13		—	-
Japanese Equity B		¥893.17		—	-
Japanese Equity I		¥912.98		—	-
US Equity Gth A		$29.54		—	-
US Equity Gth B H		$29.40		—	-
US Equity Gth I		$29.69		—	-
Deutschemark Bond A		DM14.84		—	-
Deutschemark Bd B				0.7	-
Deutschemark Bd I		DM14.91		—	-
European Bd A		Ecu20.34		—	-
European Bd B		Ecu20.24		—	-
European Bd I		Ecu20.42		—	-

LUXEMBOURG (REGULATED)(**)

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ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

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GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R.		£23¼		*£27½	£23¼	-	2.9	-
Barlow	♣	£5½	-⅛	£8⅛	£4½	-	2.8	-
Gold Flds Prop R.		110½	-9½	197	98½	-	7.2	9.2
SA Brews	†	£15½	-⅛	£22⅛	£13½	-	2.3	-
Standard Bank		£33⅛	-⅛	£33½	£22½	-	1.6	-
Tiger Oats		826	-5	1108	780	-	2.0	17.4
Tongaat-Hulett		749¼	-9¼	780	721¼	-	2.3	Φ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£5808xd		£57853	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
p Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

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LONDON STOCK EXCHANGE

Equity market hit by late burst of selling

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Against expectations, an initial strong move by the FTSE 100 index was reversed late in the session yesterday.

But Footsie's abrupt turnround had very little impact on the London market's second-liners and smaller stocks, which maintained their recent strong run. Both indices finished a busy trading session at record closing peaks. Earlier, all the main FTSE indices hit record intra-day highs.

The downside pressure in London began in the futures market, which quickly drove the cash market down. Gilts, stronger in the morning on the downward revision to fourth-quarter GDP growth, also weakened late in the session.

Marketmakers were surprised at the extent of the retracement by the leaders but not by the attempts to push down prices after their recent substantial gains. "There are plenty of marketmakers with wrong positions and they have obviously succeeded in getting the market down; whether they can keep it down is another thing," was the view of one senior dealer.

Wall Street contributed to the wobbly closing trend in the market, with US stocks making rapid progress at the start before succumbing to profit-taking. The Dow Jones Industrial Average, up 25 points shortly after the opening bell, turned down to post a fall of similar proportions within an hour of the close.

The initial rise in the London market followed the news that Kofi Annan, the United Nations secretary-general, had reached an agreement with the Iraqi leadership on the weapons inspection question, heading off a military strike against Iraq.

Apart from the welcome news from the Middle East, London was also helped by another spate of takeover bids among the UK smaller companies and further speculation that at least one big bid could be brewing in the financials and utilities sectors.

Individual corporate stories, specifically from two of the FTSE 100's leading consumer stocks, Bass and Cadbury-Schweppes, were also interpreted as exceptionally positive.

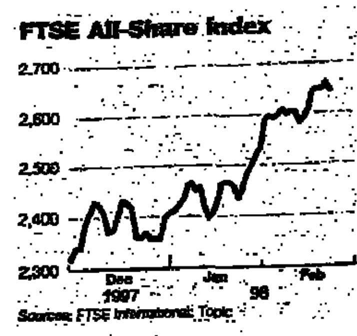
At the close of a day of dramatic swings, the FTSE 100 finished 48.8 lower at 5,702.8. At its best, not long into the trading session, Footsie launched a determined, but ultimately unsuccessful, attack on the 5,800 level, eventually hitting an intra-day record of 5,793.2.

The FTSE 250 index, meanwhile, posted its seventh consecutive winning performance and its sixth closing high in a row, climbing a further 15.1 to 5,044.8 after hitting a record intra-day level of 5,049.4, seconds before Wall Street opened for business. Over the past seven trading sessions, the index has risen 60.9, or 1.2 per cent.

The FTSE SmallCap registered its fifth consecutive closing high, putting on 7.5 to 2,445.5, after an intra-day peak of 2,446.4.

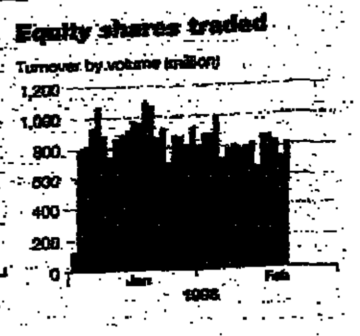
Turnover in equities slowed appreciably during the later afternoon, when the market came under downside pressure, eventually reaching 890m shares by the 6pm cut-off point.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5702.8	-48.8	FT 30	3490.1	-11.5
FTSE 250	5044.8	+15.1	FTSE Non-Fins p/e	21.16	21.26
FTSE 350	2716.1	-17.5	FTSE 100 Fut Mar	5700.0	-37.0
FTSE All-Share	2644.95	-15.53	10 yr Gilt yield	6.07	6.04
FTSE All-Share yield	2.94	2.91	Long gilt/equity yld ratio	2.07	2.09

Best performing sectors		Worst performing sectors	
1 Diversified Industrials	+1.4	1 Oil: Integrated	-2.2
2 Breweries: Pubs	+0.8	2 Banks: Retail	-2.1
3 Food Producers	+0.9	3 Resources	-2.0
4 Property	+0.8	4 Insurance	-1.5
5 Construction	+0.7	5 Oil Exploration & Prod	-1.4

Bass rises on £1.7bn hotel deal

By Martin Brice and Peter John

Bass powered ahead from the start of trading as the stock felt the benefits of the company's £1.78bn purchase of the Inter-Continental hotel chain from the Saison Group.

The share gained 56 to £10.16 in volume of 8.3m, chalking up the biggest rise in the FTSE 100 amid some of the heaviest turnover.

While much of the share price rise was attributed to relief at the price of the deal – there were fears that Bass might overpay – the strategy of the purchase was lauded.

Lehman Brothers set a price target for the stock of £11, while Goldman Sachs told its clients: "We understand that this is substantially below the highest bid that Saison received as Bass was able to provide assurances that it could provide payment by the end of March."

HSBC rose sharply in early trading as the international bank announced a 10 per cent full-year profits increase. The figures were broadly in line with the range of analysts' forecasts while credit quality was affected by weak exchange rates, low stock markets in Asia and high interest rates in many countries.

But some analysts said the reporting was conservative and HSBC's attempt to build earnings outside its Asian base was paying off. Also, the stock had performed very strongly in Hong Kong ahead of the figures. The shares ended 3 higher at £17.75.

Elsewhere in the sector, much of the long-running speculative froth appeared to disperse. The big weekend story that Barclays was planning to take over Standard Chartered was roundly denied by both Standard and Barclays and given short shrift by the market.

Hostile bid

Any attempt at a hostile takeover would be complicated by the presence of one very big individual shareholder, Tan Sri Khoo Teck Puat. The Malaysian financier bought the stake when Standard was fighting off the £1.3bn hostile bid from Lloyds and the latter remains the bank's largest shareholder with a stake of about 14.9 per cent.

Nevertheless, turnover was very heavy on Friday with more than 10m shares changing hands. A further 10m were traded yesterday.

Standard was down 22½ at 742p by the close while Barclays was a penny firmer at £18.76. NatWest, which reports today, was 42 lower at £11.25.

Potentially good news for world peace was taken badly by the oil sector. News that the United Nations secretary-general had reached agreement with Iraq on weapons inspections was seen as diluting the prospect of immediate conflict.

Sector bears reinforced their pessimistic view on the underlying oil price and the majors, particularly BP which is the most geared play to the oil price, lost all Friday's gains.

BP fell 22½ to 805p, Shell Transport 7 to 408p, Enterprise 6 to 554p and Lasmo 10 to 255p.

Glaxo Wellcome shed 14 to £19.04 as Goldman Sachs shaved its earnings forecasts for the company. The broker has cut its 1998 earnings per share number from 57p to 55.7p and its 1999 number from 64.9p to 68.1p.

Guardian Royal Exchange was the biggest faller in the Footsie on concern about tomorrow's full-year figures and the potential for share buy-back disappointment. The shares ended the day a net 35 lower at 420p. Figures from Commercial Union and Prudential are also due tomorrow.

BAT Industries slipped 3½ to 581p after one Sunday newspaper said a proposed $368.5bn tobacco industry settlement with the US government was close to collapse.

The paper said the Clinton administration had taken a tougher line in talks with the industry over last year's proposed settlement, although the company said it was not aware of any fresh developments to justify the report.

General Cable achieved one of the best rises in the FTSE 250 as the stock advanced 8 to 117p ahead of an announcement made after the market closed that a bid might stem from talks it had held. Volume was a brisk 4m.

Amid rumours that a tie-up between the two was set to be announced today or tomorrow, Telewest Communications was unchanged at 80p in small volume.

The market gave the thumbs up to news that First Leisure had sold its bingo division, via a management buy-out, for £38m. Although the deal was well flagged, the price paid for the business impressed sector specialists. First Leisure shares finished the day a net 12¼ higher at 323p.

Safeway slips

Safeway was off 10 at 365p ahead of the delayed Christmas trading statement today, with sentiment in the stock affected by concerns over recent press reports of a possible profit warning. The sentiment spread to J Sainsbury, off 12½ at 447p.

Cadbury Schweppes gained 20½ to 758½p after it confirmed that it was to form a soft drinks venture in the US that could be used as a takeover vehicle.

Among smaller companies, Transport Development achieved the largest rise in the market as the stock advanced 60¼p to 250p after it announced it would return £109m to shareholders, the equivalent of 80p a share. It will also sell its plant hire side and focus on its much larger logistics businesses.

Coda Group, the loss-making financial software company, gained 20½ to 185p after it said it had agreed a 190p-a-share bid from Bann, a Dutch company.

The Coda move is the second overseas takeover of a financial software house this month. Rolfe & Nolan, unchanged at 477½p, went to SunGard of the US for the equivalent of about 571p a share, a provisional figure announced yesterday.

Positive sentiment in financial software houses saw London Bridge Software rise 9 to 612½p.

Leslie Wise, the textile group, rose 2¼ to 14p after it said it was in takeover talks.

Deltron Electronics advanced 12 to 144¼p after the electronics component maker made a bullish trading statement at the annual meeting. Its order book was more than 56 per cent ahead of the same time last year.

More bid activity surrounding Watmoughs, the printing group, pushed the shares up 26¼ to 345p.

The group revealed it had reached agreement with Investcorp, the Bahrain-based investment group, on a 345p-a-share cash offer. The offer tops the 257p offer from Quebecor of Canada.

FT 30 INDEX

	Feb 23	Feb 20	Feb 19	Feb 18	Feb 17	Yr ago	*High	*Low
FT 30	3490.1	3501.6	3492.5	3495.7	3498.1	2668.3	3498.1	2688.8
Ord. div. yield	3.06	3.06	3.07	3.07	3.06	3.93	4.22	3.06
P/E ratio net	23.02	23.15	23.07	23.10	23.13	17.67	23.15	15.80
P/E ratio nil	22.82	22.95	22.87	22.90	22.93	17.45	22.95	15.71

FT 30 since compilation: high 3498.1 17/02/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3501.5	3522.8	3516.4	3518.1	3517.8	3515.4	3513.5	3496.0	3491.0	3529.4	3488.4

	Feb 23	Feb 20	Feb 19	Feb 18	Feb 17	Yr ago
SEAQ bargains	68,373	65,776	66,010	68,670	67,211	51,086
Equity turnover (£m)†	-	1875.3	1824.9	1911.8	1586.4	2367.6
Equity bargains†	-	51,278	52,366	54,331	53,523	43,596
Shares traded (mil)†	-	553.1	553.0	558.0	525.3	800.7

†Excluding intra-market and overseas turnover. © FTSE International Limited 1998. All rights reserved. *For 1997/98.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	686	Total Highs	270	Total contracts	27,108
Total Falls	704	Total Lows	54	Calls	17,428
Same	1,424			Puts	9,680

Feb 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5770.0	5700.0	-37.0	5798.0	5692.0	6730	60577
Jun	5846.0	5766.0	-36.0	5846.0	5815.0	173	7712
Sep	5835.0	5835.0	-37.0	5835.0	5835.0	250	990

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		5065.0	+15.0			0	6028

■ FTSE 100 INDEX OPTION (LIFFE) (*5707) £10 per full index point

	5550 C	5550 P	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P
Mar	215	63	178½	76	149½	94	115	113½	89½	137½	65½	167½	46½	199	32	233
Apr	282½	113	249½	131	219	150½	188½	171	158½	192	136½	220	114	248½	92	277
May	330½	148½	300½	167½	270	186½	240	205	209	225½	186	251½	164	279	142	305½
Jun	401	192	368½	210	336	228	304	246½	272	265½	245	290	222	315½	198½	343½
Dec†			617	331			558½	371			489½	413			456	468½

Calls 2,659 Puts 627

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5525 C	5525 P	5575 C	5575 P	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P
Mar	232½	58	194½	70½	160	85	128	103	100	125	76	150½	56	180	40	214
Apr	299½	106½	264½	121	232	138	201	156½	173½	178½	148	202½	125	229	104½	257½
May	340½	132½	308	149	277½	167	248½	187½	222	210	195	232½	170½	257	148	283½
Jun	411½	176			346½	208½			288	245½			233	291		
Sep†	539	241½			475½	273½			415½	309½			358	350		

Calls 5,196 Puts 4,180 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt. paid up	Mkt. cap (£m)	1997/98 High	1997/98 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	42.2	100	91½	Athlone Extrsns	91½		-	-	-	15.0
-	F.P.	955.8	105	95	Bass B	97½		-	-	-	-
-	F.P.	2,849	520	500	Diageo B	518	+½	-	-	-	-
§100	F.P.	32.9	105½	93	Eurocov Energy	94		-	-	-	-
§198	F.P.	351.3	202½	189	Monsoon	198	+½	L4.0	2.2	2.5	22.6
-	F.P.	6.92	62½	57½	Richards Grp	60½		-	-	-	-
§	F.P.	-	8	4½	Sanctuary Wts	4¾		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	1997/98 Low	Stock	Closing price p	+or-
190	Nil	4/3	13½pm	9½pm	Minerva	12pm	
18.5	Nil	27/2	2pm	¾pm	Pentex Energy	¾pm	-⅛

pm premium.

FTSE GOLD MINES INDEX

	Feb 23	% chg on day	Feb 19	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1037.89	-1.7	1055.62	1842.54	2.38	-	1987.49	891.23
■ Regional Indices								
Africa (14)	1081.11	-1.5	1098.75	2180.97	5.11	20.07	2333.56	921.78
Australasia (7)	1302.51	-2.4	1334.75	2046.85	2.67	17.26	2124.22	933.63
North America (11)	997.94	-1.6	1014.08	1726.02	1.22	37.30	1780.66	894.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Feb 23	Day's chge%	Feb 20	Feb 19	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5702.8	-0.8	5751.6	5718.5	4331.1	2.86	2.40	2.09	20.95	12.42	2467.57
FTSE 250	5044.8	+0.3	5029.7	5017.2	4641.9	3.30	2.74	1.95	19.39	9.06	2140.11
FTSE 250 ex IT	5068.6	+0.3	5054.7	5041.6	4679.4	3.42	2.84	2.00	18.27	8.98	2157.64
FTSE 350	2716.1	-0.6	2733.6	2719.5	2141.6	2.94	2.46	2.06	20.65	5.73	2401.34
FTSE 350 ex IT	2721.5	-0.7	2739.8	2725.5	-	2.98	2.48	2.07	20.43	5.76	1234.07
FTSE 350 Higher Yield	2704.9	-0.6	2720.6	2708.5	2057.6	3.75	3.19	1.95	17.04	2.18	2033.91
FTSE 350 Lower Yield	2743.6	-0.7	2763.2	2749.0	2233.1	2.13	1.73	2.24	26.22	9.37	1979.64
FTSE SmallCap	2445.53	+0.3	2438.01	2433.22	2349.42	2.95	2.39	1.57	27.00	4.06	2107.04
FTSE SmallCap ex IT	2435.60	+0.3	2427.56	2422.46	2357.42	3.15	2.54	1.63	24.31	3.78	2118.53
FTSE All-Share	2644.95	-0.6	2660.48	2647.24	2114.52	2.94	2.46	2.03	20.96	5.50	2373.35
FTSE All-Share ex IT	2652.75	-0.6	2669.18	2655.65	-	2.97	2.48	2.05	20.61	5.53	1224.50

■ FTSE Actuaries Industry Sectors

	Feb 23	Day's chge%	Feb 20	Feb 19	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4365.71	-2.0	4454.59	4401.38	3991.63	3.49	3.00	1.81	19.77	13.04	1982.36
12 Extractive Industries(5)	3116.18	-0.9	3143.60	3152.48	3983.90	4.52	4.00	1.88	14.68	0.00	960.48
15 Oil, Integrated(4)	4798.83	-2.2	4907.61	4833.36	4097.15	3.61	3.01	1.78	20.05	17.83	2244.23
16 Oil Exploration & Prod(13)	3236.10	-1.4	3281.79	3277.98	3509.39	1.74	1.44	2.32	30.98	0.00	1990.90
20 GEN INDUSTRIALS(224)	1998.50	....	1997.68	1990.67	1993.09	3.83	3.28	2.12	15.39	2.79	1159.72
21 Construction(38)	1445.09	+0.7	1435.02	1434.73	1358.82	3.21	2.58	2.26	17.23	1.00	1274.51
22 Building Matls & Merchs(27)	1674.52	-0.6	1684.39	1675.78	1864.37	4.55	3.75	1.93	14.22	0.46	897.67
23 Chemicals(25)	2641.93	-1.4	2678.18	2688.32	2345.11	3.77	3.40	1.56	19.73	0.46	1333.20
24 Diversified Industrials(11)	1378.58	+1.4	1357.47	1332.85	1451.72	4.16	3.78	2.13	14.12	10.72	840.23
25 Electronic & Elect Equip(27)	2137.63	+0.7	2123.44	2111.47	2267.66	4.15	3.35	1.67	18.03	12.69	1173.90
26 Engineering(61)	2702.02	+0.3	2692.85	2695.29	2539.43	3.59	3.16	2.68	12.99	1.22	1721.08
27 Engineering, Vehicles(11)	3636.61	-0.1	3642.04	3610.88	2819.87	2.69	2.27	1.81	25.80	0.26	1983.95
28 Paper, Pckg & Printing(24)	2033.32	+0.3	2026.43	2016.64	2533.81	5.13	4.26	1.90	12.81	0.48	903.54
30 CONSUMER GOODS(90)	5811.29	+0.1	5808.10	5821.52	4096.88	2.51	2.27	1.94	25.61	7.13	2272.50
32 Alcoholic Beverages(6)	3459.50	+0.1	3455.61	3508.41	2787.10	3.38	3.33	2.41	15.44	0.81	1332.65
33 Food Producers(24)	3624.42	+0.9	3591.53	3555.77	2860.29	2.98	2.46	2.60	21.15	8.53	1739.12
34 Household Goods & Texts(24)	3249.06	+0.4	3238.55	3223.36	2872.85	3.87	3.31	1.92	16.80	2.64	1352.29
36 Health Care(14)	2333.44	-0.3	2338.50	2321.44	2288.29	2.20	1.83	1.83	31.04	1.37	1477.57
37 Pharmaceuticals(19)	10553.89	-0.1	10566.57	10616.83	6958.18	1.62	1.52	1.93	39.89	14.67	3743.51
38 Tobacco(3)	4898.15	-0.5	4923.12	4928.72	4461.33	5.79	5.11	1.59	13.54	0.00	1336.86
40 SERVICES(260)	3104.78	....	3103.88	3089.93	2688.90	2.70	2.19	1.86	23.57	5.53	1694.57
41 Distributors(29)	2518.56	+0.3	2511.65	2509.36	2765.39	3.71	3.02	2.05	16.41	0.39	976.84
42 Leisure & Hotels(27)	3487.41	+0.5	3471.78	3469.41	3509.59	2.79	2.24	2.30	19.46	17.80	1957.16
43 Media(42)	4137.00	-0.8	4169.56	4154.53	4384.21	2.50	2.08	1.92	26.04	6.22	1551.98
44 Retailers, Food(14)	2822.60	-1.0	2850.75	2818.60	1948.96	3.02	2.42	2.29	18.05	3.78	1801.39
45 Retailers, General(49)	2390.86	+0.4	2382.29	2374.85	2104.68	2.96	2.37	2.33	18.13	6.16	1443.57
46 Telecommunications(10)	3397.85	+0.2	3390.18	3360.93	2316.31	2.59	2.09	1.51	31.85	3.69	1651.99
47 Breweries, Pubs & Rest.(24)	3861.75	+1.0	3824.40	3855.86	3427.02	3.06	2.45	2.41	17.00	11.82	1957.62
48 Support Services(61)	4007.71	-0.1	4012.72	3993.75	3012.45	1.45	1.18	2.27	37.95	1.35	2627.02
49 Transport(25)	3105.13	+0.4	3092.63	3077.87	2842.88	3.30	2.69	1.22	31.17	4.78	1371.27
60 UTILITIES(23)	3679.76	-1.0	3719.53	3727.53	2745.61	4.27	3.42	1.72	17.09	6.35	1795.39
62 Electricity(9)	4139.63	-0.8	4172.79	4190.49	2884.59	4.61	3.69	2.19	12.74	7.26	2389.34
64 Gas Distribution(2)	2811.72	-1.2	2846.73	2849.15	1658.74	2.32	1.86	‡	‡	0.00	1610.45
68 Water(12)	3176.91	-1.0	3210.47	3221.46	2513.11	5.37	4.30	2.21	10.54	10.26	1929.57
69 NON-FINANCIALS(636)	2602.02	-0.3	2609.43	2602.10	2162.15	3.04	2.57	1.94	21.16	4.45	2097.24
70 FINANCIALS(110)	5614.35	-1.5	5698.96	5636.67	3916.09	2.76	2.23	2.35	19.25	17.35	2568.15
71 Banks, Retail(12)	8228.26	-2.1	8408.96	8297.10	5735.45	2.74	2.19	2.40	18.98	37.24	2853.22
73 Insurance(17)	2608.98	-1.5	2648.79	2602.28	1726.33	3.38	2.80	2.79	13.25	2.12	2120.81
74 Life Assurance(8)	7261.80	-0.1	7272.04	7274.26	4563.72	2.51	2.07	2.27	21.88	0.00	3197.15
77 Other Financial(27)	4268.96	-0.3	4282.79	4235.78	3193.39	2.50	2.04	2.23	22.42	0.92	2571.05
79 Property(48)	2368.52	+0.8	2349.00	2340.72	1887.57	2.73	2.24	1.42	32.30	3.62	1541.27
80 INVESTMENT TRUSTS(119)	3666.54	+0.5	3647.80	3641.39	3351.91	2.12	1.70	1.17	50.18	7.15	1327.16
89 FTSE All-Share(868)	2644.95	-0.6	2660.48	2647.24	2114.52	2.94	2.46	2.03	20.96	5.50	2373.35
105 FTSE All-Share ex IT(749)	2652.75	-0.6	2669.18	2655.65	-	2.97	2.48	2.05	20.61	5.53	1224.50
Information Technology	1241.09	....	1241.06	1231.03	-	0.65	0.52	2.51	76.74	1.10	1242.20
FTSE Fledgling	1336.63	+0.4	1331.84	1330.20	1336.88	3.31	2.66	1.36	27.81	2.63	1467.41
FTSE Fledgling ex IT	1358.33	+0.4	1352.67	1351.33	1359.96	3.70	2.98	1.40	24.20	2.86	1495.77
FTSE AIM	1005.3	....	1005.2	1002.4	-	1.13	0.90	0.62	80.00†	0.96	926.29

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5776.7	5764.3	5767.9	5769.1	5766.4	5757.8	5723.2	5696.7	5793.2	5696.3
FTSE 250	-	5043.1	5043.1	5043	5046.3	5048	5049	5047.2	5044.7	5049.4	5033.6
FTSE 350	-	2744.7	2739.9	2741.3	2742.1	2741.2	2737.9	2724.3	2713.7	2751	2713.7
FTSE SmallCap	2440.94	2441.52	2442.83	2443.53	2445.57	2446.18	2446.39	2446.25	2445.74	2446.43	2440.42
FTSE All-Share	-	2670.84	2666.53	2667.85	2666.66	2667.94	2664.96	2652.49	2642.76	2676.53	2642.76

Time of FTSE 100 Day's high: 8:41 AM Day's low: 4:09 PM. FTSE 100 1997 High: 5751.6 (20/02/98) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 8:42 AM Day's low: 4:10 AM. FTSE All-Share 1997 High: 2660.5 (20/02/98) Low: 1969.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Annual review changes please see FTSE.Intl webside ftse.com. For Quarterly Review Changes see website www.ftse.com.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol. 000s	Closing price	Day's change
3i†	1,100	520	+9
AMVESCAP†	1,100	571	-16
ASDA Group†	3,100	204	+2
Abbey National†	3,700	1267	-31
Airtours	599	438½	+2½
Alliance & Leicester†	1,400	923	-15
Alliance Unichem	418	395	-1½
Allied Domecq†	1,400	555	+11
Anglian Water	320	836	-16
Argos	352	808	+½
Arjo Wiggins	428	163½	
Assoc. Brit. Foods†	2,400	609	-21
Assoc. Brit. Ports	710	303½	-7
BAA†	4,400	556	-5½
BAT Inds.†	11,800	581	-3½
BBA	1,300	420½	+1
BOC†	4,660	918	-19
BG†	2,900	318	-4¼
BP†	9,500	805	-22½
BPB	741	312	-1
BSkyB†	4,900	367	-7
BT†	8,100	600	+1¼
BTR†	14,000	158¾	+2¼
Bank of Scotland†	2,600	700	-10
Barclays†	3,500	1876xd	+24½
Bass†	8,300	1016	+56
Billiton†	2,800	154½	-1½
Blue Circle†	824	330	-2½
Boots†	1,500	900	-6
Britannic	455	1203½	+14
Brit. Aerospace†	1,600	1909	+29
British Airways†	1,600	583½	-1½
British Biotech	700	94	+1¼
British Borneo	1,500	308	+½
British Energy†	3,000	444	-2
British Land†	501	741	+6
British Steel†	3,500	144	
Burmah Castrol	808	1070	-15
Cable & Wire†	3,600	670½	+5½
Cadbury Schweppes†	7,600	758½	+20½
Caradon	1,200	172	+1½
Carlton Comms.†	2,100	416	-4¼
Centrica†	5,500	101	-1
Comm. Union†	1,900	1105	-14
Compass	402	887	-3
Cookson	1,100	208	+½
Courtaulds	612	270	-1½
Daily Mail A	312	2280	-
Danka	422	284	
Debenhams	935	408	-2½
Diageo†	8,200	602½	-2½
Dixons†	1,500	550	
EMAP	371	1091½	
EMI†	2,200	498	+1½
Electrocomps	732	458	+1½
Energy Group†	2,800	778	+2½
Enterprise Oil†	1,300	554	-6
Flextech	365	484½	-10½
Foreign & Col. I.T.	332	184	+4
Gallaher	884	368	-1
Gen. Accident†	884	1372	+12
General Elect.†	6,400	378	+3½
Glaxo Wellcome†	3,700	1904	-14
Granada†	1,500	902	+½
GUS†	751	760½	+½
Greenalls	349	416	
GRE†	2,000	420	-35
GKN†	1,500	1439	+19
HSBC (75p shs)†	8,500	1775	+3
HSBC (HK$10)†	8,500	1658	-24
Halifax†	8,400	921½	-16½
Hammerson	349	514	-4
Hanson	1,100	289½	-3½
Hays†	504	865	-12
Hillsdown	245	153½	+½
Hyder	435	935	-20
IMI	496	408½	+1½
ICI†	1,400	1054	-28
Imperial Tobacco	398	410	
Inchcape	963	165½	+½
Johnson Matthey	547	535	-5½
Kingfisher†	815	1037½	+22½
Ladbroke†	6,300	289¼	+4
Land Securities†	863	1121	+13
Laporte	88	687½	+1
Legal & General†	899	704½	-15½
Liberty Intl.	222	561	-3
Lloyds TSB†	6,400	891xd	-28
LASMO†	1,700	255	-10
LucasVarity†	4,700	218½	-6
MEPC	684	594	+7½
Marks & Spencer†	6,800	584	+4
Misys	249	2442½	-10
Morgan Crucible	156	436½	+6½
Morrison (Wm.)	340	249	-½
NFC	4,100	168½	+5
NatWest Bank†	3,000	1126	-42
National Grid†	5,000	321½	+1¼
National Power†	1,900	630	-12½
Next†	2,400	820	-5
Northern Foods	914	271½	+4½
Northern Rock	1,500	889½	+8
Norwich Union†	2,800	477	-12
Nycomed Amer†	1,600	2300	-52
Nycomed Amer N/V†	0	2295	
Orange†	1,300	340½	-14½
Pearson†	678	877	-18
P & O†	585	764½	+10
Pilkington	7,000	111½	+2½
PowerGen†	718	823	-21½
Premier Farnell	5,100	381½	
Provident Financial	1,100	938	+14½
Prudential†	4,200	866	+15
REXAM	1,200	260½	+1
RMC	889	855	+18
Railtrack†	1,800	910	+6
Rank Group†	3,900	334½	-5½
Reckitt & Colman†	948	1063	+6
Reed Intl.†	1,700	626	-4
Rentokil Initial†	3,000	294½	+½
Reuters†	6,700	608½	-17½
Rio Tinto†	3,100	794	-8½
Rolls Royce†	1,800	209¼	+¼
Royal & Sun Alliance†	4,200	758½	-9
Royal Bk Scotland†	1,800	951	-29½
Safeway†	2,200	365	-10
Sainsbury†	1,200	447	-12½
Schroders†	46	2135	-35
Schroders N/V†	23	1895	+30
Scottish & New.†	1,100	645	-19
Scot. Hydro-Elect.	1,400	556½	-8
Scottish Power†	3,200	519½	+3½
Sears	4,200	52¾	+1¼
Securicor	830	357	+3½
Sema	282	1892½	-17½
Severn Trent†	414	918	-14
Shell Transport†	20,600	408	-7
Siebe†	1,600	1154	-14
Slough Ests	362	397½	+9
Smith (W.H.)	1,000	485	+6½
Smith & Nephew	1,600	177¼	-¼
SmKl Beecham†	10,000	807xd	+4¼
Smiths Inds.†	1,900	858	-7
Southern Elect.	529	562	-3
South West Water	913	892½	-9
Stagecoach	149	815	
Standard Chand.†	10,500	742	-22½
Storehouse	344	247	+3½
Sun Life & Prov.†	213	582	+4
T & N	28	256	
TI Group	303	493	+3
Tarmac	1,100	98	-1
Tate & Lyle	458	519	+16
Tesco†	2,900	518½	-3½
Thames Water†	757	865	-10
Tomkins†	1,100	347¾	+6¼
Unigate	331	644½	+2
Unilever†	5,100	529¼	+9
United Assurance	208	590½	-½
United Biscuits	378	254	-4
Utd. News & Media†	1,000	880	-2½
United Utilities†	749	802	-9
Vendome	303	481½	
Vodafone†	6,600	526	+1¼
WPP	3,200	319½	+20½
Wessex Water	149	486	-10½
Whitbread†	2,400	980	-10
Williams†	498	354	-2½
Wolseley†	788	481	-22
Woolwich†	8,200	375¼	-11¾
Yorkshire Water	567	492	+1½
Zeneca†	1,500	2679	+25

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent. [illegible] reserve. All [illegible] Extel, part of FT Information.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 23 / Sch)

BELGIUM/LUXEMBOURG (Feb 23 / Frs.)

CZECH REP (Feb 23 / Koruna)

DENMARK (Feb 23 / Kr)

FINLAND (Feb 23 / Mkk)

FRANCE (Feb 23 / Frs.)

GERMANY (Feb 23 / Dm.)

GREECE (Feb 23 / Drachma)

ITALY (Feb 23 / Lire)

NETHERLANDS (Feb 23 / Fl.)

NORWAY (Feb 23 / Kroner)

POLAND (Feb 23 / Zloty)

PORTUGAL (Feb 23 / Escudo)

SPAIN (Feb 23 / Pts.)

SWEDEN (Feb 23 / Kronor)

SWITZERLAND (Feb 23 / Frs.)

TURKEY (Feb 23 / Tk Lira)

PACIFIC

JAPAN (Feb 23 / Yen)

HONG KONG (Feb 23 / HK$)

INDONESIA (Feb 23 / Rupiah)

MALAYSIA (Feb 23 / MYR)

NEW ZEALAND (Feb 23 / NZ $)

SINGAPORE (Feb 23 / S$)

AUSTRALIA (Feb 23 / AustS)

SOUTH KOREA (Feb 23 / Won)

TAIWAN (Feb 23 / TW $)

THAILAND (Feb 23 / Baht)

AMERICAS

CANADA

TORONTO (Feb 23 / Can $)
4 pm close

MONTREAL (Feb 23 / Can $)
4 pm close

MEXICO (Feb 23 / Peso)

AFRICA

SOUTH AFRICA (Feb 23 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 20 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY FEBRUARY 19 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	205.97	-1.0	186.64	166.07	195.08	203.56	-0.6	3.74	208.12	188.74	166.35	197.39	204.77	243.87	190.26	220.09
Austria (23)	197.81	-1.1	179.25	159.50	187.36	187.23	-1.3	1.74	200.07	181.44	159.91	189.75	189.62	213.59	175.14	183.12
Belgium (26)	277.19	-0.1	251.17	223.49	262.53	258.82	-0.2	2.68	277.48	251.68	221.78	263.17	257.50	278.83	227.73	230.53
Brazil (30)	233.30	0.8	211.40	188.10	220.96	484.87	0.8	1.73	231.50	208.94	185.03	219.56	481.09	322.44	184.94	232.88
Canada (121)	222.28	0.7	201.42	179.22	210.52	226.52	0.3	1.74	220.69	200.15	176.40	209.31	227.74	233.66	178.27	200.59
Denmark (34)	460.07	-0.1	416.90	370.95	435.75	434.47	-0.2	1.24	460.64	417.75	368.18	436.53	435.50	488.39	348.27	376.09
Finland (26)	338.76	0.8	306.97	273.14	320.85	393.02	0.7	2.09	336.02	304.73	268.57	318.69	390.31	349.43	243.25	260.62
France (79)	253.16	0.5	229.40	204.12	239.78	242.58	0.3	2.21	252.02	228.55	201.43	239.02	241.79	254.82	209.81	216.48
Germany (58)	246.81	0.7	223.47	198.84	233.58	233.58	0.6	1.30	244.87	222.07	195.72	232.24	232.24	247.36	191.91	191.91
Hong Kong, China (65)	340.64	0.4	308.67	274.65	322.63	338.71	0.4	4.72	339.34	307.75	271.23	321.84	337.45	580.03	262.93	491.46
Indonesia (27)	49.62	-6.6	44.96	40.01	46.99	281.55	-0.7	2.39	53.10	48.15	42.44	50.38	283.39	254.90	27.67	246.38
Ireland (16)	466.77	1.2	422.98	376.35	442.09	480.97	0.8	2.05	461.31	418.36	368.72	437.52	477.24	466.77	321.33	335.85
Italy (54)	131.26	-1.2	118.94	105.83	124.32	176.10	-1.3	1.36	132.90	120.52	106.22	126.04	178.46	135.83	83.01	90.16
Japan (481)	102.87	-0.6	93.22	82.95	97.43	82.95	0.2	0.96	103.53	93.89	82.75	98.19	82.75	141.12	88.52	115.98
Malaysia (107)	216.09	-0.9	195.81	174.23	204.68	312.92	0.2	2.32	218.17	197.85	174.37	206.91	312.15	660.85	113.56	655.38
Mexico (29)	1518.41	-0.7	1375.91	1224.27	1438.12	14260.65	-0.2	1.58	1526.71	1386.39	1221.86	1449.87	14293.94	1901.96	1326.16	1409.95
Netherlands (19)	436.68	0.5	395.70	352.09	413.59	409.19	0.3	2.16	434.73	394.25	347.47	412.31	407.88	440.67	330.32	345.04
New Zealand (14)	75.87	-1.9	68.75	61.17	71.85	69.72	-0.7	4.44	77.34	70.14	61.82	73.35	70.20	96.47	71.49	89.05
Norway (38)	300.44	-0.2	272.24	242.24	284.55	309.63	-0.2	2.04	301.05	273.02	240.62	285.52	310.32	374.64	281.62	319.91
Philippines (22)	90.64	0.1	82.14	73.08	85.85	182.40	0.1	1.11	90.57	82.14	72.39	85.90	182.12	207.89	57.54	204.75
Singapore (42)	215.71	-1.0	195.46	173.92	204.30	183.37	0.1	1.95	217.91	197.63	174.17	206.68	163.18	441.04	144.01	441.04
South Africa (43)	279.26	-0.2	253.06	225.17	264.50	302.08	-0.1	2.83	279.76	253.71	223.61	265.33	302.25	370.12	227.68	360.04
Spain (33)	316.67	2.2	286.95	255.32	299.92	370.25	2.1	1.89	309.86	281.01	247.66	293.88	362.71	316.67	206.12	213.31
Sweden (49)	504.93	0.2	457.55	407.12	478.24	604.43	0.1	1.80	504.03	457.10	402.86	478.03	603.97	538.94	405.00	432.42
Switzerland (31)	376.64	0.7	341.30	303.69	356.73	343.02	0.5	0.98	373.96	339.14	298.90	354.68	341.34	376.89	245.34	248.65
Thailand (39)	31.96	1.2	28.96	25.77	30.27	55.26	2.5	5.47	31.58	28.64	25.24	29.95	53.93	86.40	13.10	86.36
United Kingdom (213)	365.72	0.6	331.39	294.87	346.38	331.39	0.6	2.98	363.37	329.54	290.44	344.63	329.54	365.72	271.72	280.78
USA (638)	422.44	0.5	382.79	340.61	400.10	422.44	0.5	1.48	420.39	381.25	336.00	398.71	420.39	422.44	289.79	328.34
Americas (818)	382.38	0.5	346.49	308.31	362.16	322.84	0.5	1.51	380.51	345.09	304.13	360.89	321.31	382.38	274.59	298.84
Europe (701)	315.65	0.5	286.03	254.51	298.96	302.37	0.4	2.15	314.02	284.78	250.99	297.82	301.15	315.02	237.94	242.48
Nordic (149)	442.91	0.2	401.34	357.11	419.49	461.30	0.1	1.78	442.03	400.87	353.30	419.23	460.84	484.93	356.77	378.35
Pacific Basin (871)	112.68	-0.6	102.12	90.86	106.73	92.08	0.2	1.60	113.38	102.83	90.62	107.54	91.91	158.99	95.32	138.46
Euro-Pacific (1572)	197.34	0.1	178.82	159.11	186.91	171.16	0.3	1.97	197.06	178.72	157.51	186.90	170.60	209.12	172.03	181.79
North America (759)	409.61	0.5	371.17	330.27	387.96	408.32	0.5	1.50	407.59	369.64	325.77	386.57	407.36	409.61	292.34	318.73
Europe Ex. UK (488)	281.97	0.5	255.51	227.35	267.06	279.03	0.3	1.67	280.70	254.57	224.36	266.23	278.16	282.63	213.38	216.88
Pacific Ex. Japan (390)	203.08	-0.5	184.02	163.74	192.34	201.73	0.0	3.87	204.16	185.15	163.18	193.63	201.81	318.96	161.31	317.30
World Ex. US (1795)	200.55	0.2	181.73	161.70	189.95	177.56	0.3	1.98	200.23	181.58	160.04	189.90	176.99	212.69	175.30	185.66
World Ex. UK (2220)	263.20	0.3	238.50	212.21	249.28	239.98	0.4	1.57	262.44	238.00	209.75	248.90	239.06	263.27	211.16	225.71
World Ex. Japan (1952)	356.40	0.5	322.96	287.37	337.58	351.53	0.4	1.82	354.78	321.75	283.57	336.49	350.03	356.40	271.90	288.41
The World Index (2433)	271.86	0.3	246.35	219.20	257.49	248.18	0.4	1.72	270.97	245.74	216.58	257.00	247.17	271.90	216.61	230.43

Emerging markets: IFC investable indices

Dollar terms

Feb 20 Market		Day's % chg	% Chg since 31/12/96
Latin America			
Argentina	1,084.89	-0.1	-2.8
Brazil	473.06	+0.8	-2.0
Chile	585.54	-0.2	-8.9
Colombia[1]	648.29	+0.7	-21.5
Mexico	657.86	-0.8	-16.5
Peru[2]	192.09	-0.1	-13.3
Venezuela[3]	756.81	-1.0	-17.4
East Asia			
China[4]	48.92	+0.5	-11.5
Korea[5]	35.09	-3.1	+48.0
Philippines	129.51	+0.6	+14.9
Taiwan, China[6]	181.27	-0.5	-14.3
South Asia			
India[7]	77.80	-0.5	-6.5
Indonesia[8]	25.01	-7.4	-25.7
Malaysia	119.63	+1.2	+31.2
Pakistan[9]	242.27	-1.6	-2.5
Sri Lanka[10]	119.21	+0.5	+2.5
Thailand	79.83	+0.7	+67.8
Europe/Mideast/Africa			
Czech Rep	52.75	+2.4	-3.6
Egypt	87.27	-0.1	-6.4
Greece	311.94	-1.4	-3.7
Hungary[4]	294.83	+0.4	-6.3
Israel	109.62	-0.1	-10.0
Jordan	205.25	+0.1	-2.4
Morocco	136.23	+0.1	-4.6
Poland[11]	722.31	-0.6	+21.0
Portugal	250.09	-0.4	-16.5
Russia	117.40	+0.9	-21.0
S Africa[13]	194.25	-0.3	-8.1
Slovakia	85.63	-0.7	-13.6
Turkey[14]	240.80	+2.4	-22.9
Zimbabwe[15]	264.77	-0.1	+5.2
Regions			
Composite	243.93		-0.8
Latin America	613.11		-8.5
Asia	125.55	-0.2	+16.5
EMEA	144.22	+0.2	-2.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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4 pm close February 23

NEW YORK STOCK EXCHANGE PRICES

- A -

1997/98 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
48	24¼	AAR	0.48	1.0	28	376	46	45½	45⅞	
45	37⅛	AMP x	1.09	2.5	20	1702	43	43	43	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. lie-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	8413.94	8375.58	8451.06	8451.06 (18/2/98)	6391.69 (11/4/97)	8451.06 (18/2/98)	41.22 (8/7/32)
Home Bonds	105.21	105.17†	105.27	105.48 (15/1/98)	101.09 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3452.42	3504.81	3534.54	3676.87 (12/2/98)	2222.07 (2/1/97)	3676.87 (12/2/98)	13.23 (8/7/32)
Utilities	270.08	269.54	269.77	272.01 (31/12/97)	209.47 (25/4/97)	272.01 (31/12/97)	10.53 (8/7/32)

DJ Ind. Day's high 8449.07 (8463.28) Low 8291.88 (8327.25) (Theoretical♦)
Day's high 8424.40 (8451.81) Low 8318.59 (8369.35) (Actual♦)

Standard and Poors	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	1034.21	1028.28	1032.08	1034.21 (20/2/98)	737.01 (2/1/97)	1034.21 (20/2/98)	4.40 (1/6/32)
Industrials♥	1204.88	1197.73	1201.11	1204.88 (20/2/98)	865.42 (11/4/97)	1204.88 (20/2/98)	3.52 (30/6/32)
Financial♥	123.90	123.22	124.11	124.11 (18/2/98)	80.75 (2/1/97)	124.11 (18/2/98)	7.13 (4/9/74)
Others							
NYSE Comp.	537.49	535.01	537.23	537.49 (20/2/98)	389.47 (11/4/97)	537.49 (20/2/98)	4.64 (25/4/42)
Amex Comp	689.19	688.86	688.50	721.90 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	524.20 (16/7/96)
NASDAQ Comp	1728.13	1727.01	1716.73	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	453.89	454.21†	454.88	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/93)

■ RATIOS

	Feb 20	Feb 13	Feb 6	Year ago
Dow Jones Ind. Div. Yield	1.66	1.66	1.69	1.94
	Feb 18	Feb 11	Feb 4	Year ago
S & P Ind. Div. yield	1.40	1.42	1.43	1.72
S & P Ind. P/E ratio	27.24	27.61	27.31	22.84

US DATA

■ MARKET ACTIVITY

● Volume (million)	Feb 20	Feb 19	Feb 18
NYSE	594.300	585.500	605.890
Amex	25.051	24.158	25.831
NASDAQ	755.645	743.734	697.557

NYSE	Feb 20	Feb 19	Feb 18
Issues Traded	3,478	3,445	3,465
Rises	1,565	1,269	1,696
Falls	1,343	1,635	1,181
Unchanged	568	541	586
New Highs	184	171	223
New Lows	16	14	14

■ NYSE TRADING ACTIVITY — Volume : 594,300,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	13,802,000	34¾	−⅞
Eli Lilly	7,855,900	61¾	+1¾
Hewlett-Pkrd	4,998,000	64⅞	−⅛
Cendant	4,758,300	37¼	+1⅞
Ph Morris	4,405,400	41⅞	+⅛
Merc Bancorp	4,291,000	56¼	−1⅛
Pepsico	4,012,600	35¾	
AT&T	3,887,300	61⅞	−1⅞
Texas Instr	3,670,300	58⅞	+⅛
Micron Tech	3,659,700	33⅞	

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Ackerley Grp	24⅛	+3¼	+15.4
Del Webb	31	+2⅜	+8.3
Cort Busn	39	+2⅜	+6.5
Anti Man	35	+2	+6.1
Downs			
Appl Ind Tch	24⅛	−1⅜	−5.4
AMR	123⅞	−5⅞	−4.5
Hartford Life	42½	−1⅞	−4.1
UAL	85⅝	−3⅛	−3.5

■ NASDAQ TRADING ACTIVITY — Volume :755,645,000

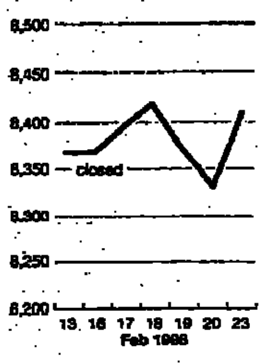
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Ciena Corp	27,521,900	42	−15⅞
Intel	24,575,100	81⅞	+1¼
Dell Comp	15,609,800	128⅛	+3⅞
Appl Matl	11,046,900	36¾	−1⅛
Microsoft	10,689,100	155⅞	+⅛
WorldCom	10,152,200	39	+⅛
Oracle	9,811,600	25⅛	−⅛
Ascend Com	9,684,200	35½	+⅛
Cisco Sys	8,494,800	65⅞	+⅛
Adaptec	8,184,000	23⅛	−2⅛

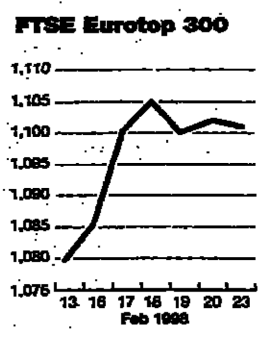
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Dynacq Int	3	+2⅛	+357.1
Doubleclick	25¾	+9¾	+57.3
Deswell	20⅛	+3⅛	+18.0
Nutraceutical	19⅛	+2⅛	+14.3
Downs			
Hirsch Int A	11¼	−10⅜	−48.0
PMR	12⅝	−6⅛	−33.3
Ciena Corp	42	−16⅛	−27.7
Intersolv	16⅝	−3⅛	−16.2

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	16609.49	16756.31	16616.42	20681.1	14664.4	38915.9	85.25

Day's high 16718.58. Day's low 16609.49

■ TOKYO TRADING ACTIVITY — Volume : 320,000,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Toshoku	22,533,000	7	+1
Np Steel Cp	10,810,000	227	−1
Mitsbsl Hvy	10,440,000	525	−5
Yamaichi Sec	7,989,000	3	
Sanwa Bank	5,473,000	1290	+50
Mazda Motor	4,907,000	359	+22
ABCK Corp	4,061,000	147	−1
Np Dry-Chm	4,006,000	985	+59
Bk Tk-Mitsbs	3,801,000	1740	−40
Stomo Mtl Ind	3,712,000	219	−1

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Saorio	910	+85	+10.3
Sakurada	215	+19	+9.5
Kanto Auto	481	+41	+9.3
Kyoei Tele	155	+14	+9.3
Downs			
Mitshi Plst	221	−24	−9.8
Daido Concr	190	−20	−9.5
Ftsc Denso	1440	−150	−9.4
Toyo Sgr Ref	200	−20	−9.1

FRANCE

	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3273.48	3262.50	3250.63	3281.71	2256.87	3281.71	984.51

Day's high 3315.09. Day's low 3260.23

■ PARIS TRADING ACTIVITY — Volume : 416,420,690

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Rhne-Plnc A	2,387,823	285.1	+0.7
Usinor	2,100,385	88.5	−0.2
Fr Telecom	1,452,004	274.4	−7.3
Axa-UAP	1,159,951	592	+7
Alcatel	790,191	796	+8
BNP	758,049	364.6	+9.6
Paribas A	664,846	599	+7
Elf Aquitine	653,854	672	−1
Total B	532,370	633	+3
Soc Gen	308,842	908	+16

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Sodeco	10.05	+0.95	+10.4
Natl de Nav	123.8	+11.8	+10.0
Cityeux	49.5	+4.4	+9.8
Phyto-Lierac	250.0	+20.0	+8.7
Downs			
Mlle Amis	33.0	−2.95	−8.2
Georax	14.9	−1.1	−6.9
Un Crad Bat	13.05	−0.95	−6.8
Pier Import	45.0	−3.0	−6.3

GERMANY

	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4657.54	4602.65	4582.40	4657.54	2848.77	4657.54	931.18

Day's high 4662.78. Day's low 4642.70

■ FRANKFURT TRADING ACTIVITY — Volume : 9,789,228

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
IG Farbenind.	853,700	2.15	
Commrzbnk	578,914	66	+0.35
Dresdner Bk	492,322	86.1	+1.3
Deutsche Bk	400,542	125.75	+1.1
Bayer Vrnsbk	159,707	116	+0.4
Bayer Hypo	109,220	87.2	+0.1
Adidas	35,228	276.5	+1.5
DT Pfandbrf	28,912	126.8	+0.3
GEA	16,640	655	+6
Bayer Mtm	13,362	1641	+45

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Stinz	70.0	+3.0	+4.5
Apcoa Parking	152.0	+6.0	+4.1
Bayer Mtres	1120.0	+40.0	+3.7
Escada	220.0	+7.0	+3.3
Am Allg Hand	563.0	+17.9	+3.3
Krupp	319.0	+9.5	+3.1
Downs			
Balcke-Durr	230.0	−7.0	−3.0
Am Aach	231.1	−3.9	−1.9

UK

	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5702.8	5751.6	5718.5	5751.6	4056.6	5751.6	986.9

Day's high 5783.2. Day's low 5696.3.

■ LONDON TRADING ACTIVITY — Volume : 819,900,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Fortune Oil	68,839,150	12½	
Hartstone	22,649,500	10	
Shell T&T	20,534,220	408	−7
Ulster TV	18,277,980	243	+½
Emerald Engy	12,708,750	8¼	−¼
Stndrd Chart	10,501,640	742	−22½
Dana Petrlm	10,471,340	20½	
Smith.Bchm	10,451,060	807	+1½
BTR	9,690,909	158¾	+2¼
BP	9,527,483	805	−22½

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
RMS Comms	70	+17½	+33.3
Trnsport Dev	250	+60½	+31.9
Floral Street	80	+15	+23.1
Bowness Ls.	282½	+42½	+17.7
Downs			
Bolton Intl	3	−¾	−20
Emerald Engy	8¼	−1¼	−13.2
Whittard	162½	−21½	−11.7
Burnden Ls.	18	−2	−10

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1043.70	1039.70	+2.20	1043.70	1038.80	97,601	385,018
Jun	1054.50	1050.40	+2.00	1054.50	1049.90	2,454	17,823
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	16690.0	16590.0	−160.0	16720.0	16580.0	12,394	190,898
Jun	16620.0	16560.0	−150.0	16660.0	16550.0	1,069	55,584

Open interest figures for previous day.

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	3300.0	3271.0	+5.0	3318.0	3260.0	15,655	38,274
Mar	3311.5	3279.5	+5.0	3323.5	3268.0	4,749	27,151
■ DAX							
Mar	4668.0	4625.0	+28.0	4678.5	4608.5	16,324	91,628
Jun	4686.0	4657.0	+19.0	4708.0	4648.0	200	50,032

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	2675.50	2682.50	+12.75	2708.25	2675.50	7,571	19,373
Mar	2683.25	2691.00	+14.00	2716.00	2683.25	4,446	14,882
■ SOFFEX							
Mar	7042.0	6977.0	−19.8	7064.5	6977.0	4,415	19,350
Apr	7062.0	6986.6	+100.0	7082.0	7060.0	59	1,578

WORLD MARKETS AT A GLANCE

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Argentina	General	22477.10	22548.64	22596.95	25771.70 22/10/97	18237.40 2/1/97	2.9	19.2
Australia	All Ordinaries	2855.1	2845.1	2858.8	2778.20 25/9/97	2289.20 28/10/97	3.4	19.5
	All Mining	623.8	620.5	625.5	987.18 24/2/97	541.10 27/11/97		

Telstra continued to make new highs and investors reacted favourably to results from Coles Myer and Woolworths.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Austria	Credit Aktien	469.47	467.18	474.33	499.52 5/2/98	374.40 9/1/97	1.9	14.1
	ATX Index	1357.30	1337.71	1353.11	1480.49 31/7/97	1130.22 9/1/97		

Closed higher as relief over a possible solution to the Iraqi crisis triggered a wave of buying, notably of bank stocks.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Belgium	BEL20	2691.37	2676.51	2680.14	2691.37 23/2/98	1871.05 2/1/97	2	18.2

Utility group Tractebel rose 2 per cent on hopes that parent SGB will restructure after selling its banking interests.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Brazil	Bovespa	(c)	10318.0	10238.0	13617.00 8/7/97	6885.50 2/1/97	na	na
Canada	TSE 100♦	421.52	422.05	420.19	430.48 7/10/97	342.12 11/4/97	1.7	20.3
	Metals Minls♦	3960.04	3974.86	3937.61	5981.75 10/3/97	3442.35 12/1/98		
	Composite♦	6913.80	6920.70	6886.30	7208.90 7/10/97	5579.39 14/4/97		
	Portfolio§§	3557.77	3567.04†	3551.18	3616.33 12/2/98	2846.82 11/4/97		

‡Turned easier at midday as falling natural-resource shares outweighed buoyant financial stocks.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Chile	IGPA Gen♥	4495.13	4432.37	4424.36	5889.71 4/7/97	4243.47 27/1/98	3	14.7
China	Shanghai B	55.08	54.97	54.36	98.21 7/5/97	49.89 12/1/98	0.8	49.3
	Shenzhen B	94.32	94.20	94.22	184.29 6/5/97	77.98 12/1/98		

In Shanghai B shares, gains beat falls by five to two reflecting keen retail interest.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Colombia	IBB	1199.56	1201.24	1188.25	1593.72 16/10/97	844.41 2/1/97	na	na
Czech Republic	PX 50	470.2	468.5	465.8	628.00 25/2/97	452.40 4/2/98	na	na

Komerční banka rose strongly on buying from an unidentified London-based investor.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Denmark	CopenhagenSE	695.48	695.98	696.35	708.89 6/1/98	470.14 2/1/97	1.2	21.8

Financials hit by profit-taking on fears that forthcoming results from leading banks may not meet forecasts.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Egypt	Cairo SE Gen	364.32	(c)	355.69	--	--	na	na
Finland	HEX General	4053.98	3969.65	3955.77	4053.98 23/2/98	2493.28 2/1/97	2	16.6

Hit a new all-time high, helped by strong gains at telephone equipment group Nokia.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
France	SBF 250	2124.20	2110.98	2104.02	2124.20 23/2/98	1533.19 2/1/97	2.4	18.4
	CAC 40	3273.48	3262.50	3250.63	3281.71 18/2/98	2266.97 2/1/97		

Pared early gains late in session. Banks remained strong on merger rumours.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Germany	FAZ Aktien	1500.80	1482.20	1489.87	1500.80 23/2/98	986.21 2/1/97	1.3	20.9
	Commerzbank	4445.30	4385.40	4400.00	4445.30 23/2/98	2876.90 2/1/97		
	DAX‡	4657.54	4602.65	4582.40	4657.54 23/2/98	2848.77 2/1/97		

Finished firmer, but gave up some morning gains towards the close as the dollar weakened.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Greece	Athens SE	1393.48	1428.26	1446.14	1794.14 8/10/97	954.54 2/1/97	3	14.7
	FTSE/ASE 20	767.13	790.11	798.53	998.85 10/12/97	755.18 29/1/98		

Money market interest rates rose after Greece's sovereign credit ratings were put on review by Moody's.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Hong Kong	Hang Seng	10695.21	10598.79	10581.27	16673.30 7/8/97	8121.06 12/1/98	3.6	10.2
	HSCC Red Chip	1593.01	1550.32	1544.85	4110.55 27/8/97	984.50 12/1/98		

HSBC's rally ahead of its results accounted for most of the Hang Seng's rise and a third of the day's HK$7.1bn turnover.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Hungary	Bux	8090.91	7941.19	7930.64	8483.80 5/8/97	4291.30 6/1/97	na	na

Rose by nearly 2 per cent, buoyed by the easing of tensions in the Middle East.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
India	BSE Sens.	3478.40	3417.30	3437.64	4548.02 5/8/97	3209.55 28/1/98		
	Crisil 500	628.34	617.22	619.01	843.28 5/8/97	594.38 29/1/98	na	na

Gained ground as foreign funds moved into the market, prompting speculative local buying, traders said.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Indonesia	Jakarta Comp.	505.03	495.23	495.25	740.83 8/7/97	339.53 15/12/97	2.1	16.4

Rupiah weakness boosted dual-listed Telkom and Indosat. In the broader market, falls beat rises by six to five.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Ireland	ISEQ Overall	4845.40	4825.51	4776.83	4845.40 23/2/98	2725.87 2/1/97	1.9	21.4

Financials were in the spotlight after strong earnings data from Hibernian, the insurance group.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Israel	Tel Aviv 100	279.64	(c)	271.70	311.76 6/8/97	214.15 2/1/97	na	na

Ended higher in extremely heavy trading, buoyed by the easing of tensions in Iraq.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Italy	BCI Comit 30	280.80	281.58	285.32	292.46 17/2/98	155.74 2/1/97	1.6	25.2
	Banca Com Ital	1219.27	1217.33	1234.08	1282.92 11/2/98	660.42 2/1/97		
	Mibtel General	19273.0	19339.0	19528.0	19932.00 17/2/98	10488.00 2/1/97		

Closed flat as oil giant Eni was pulled lower by the decline in crude prices and a lacklustre dollar.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Japan	Nikkei 225	16609.48	16756.24	16616.48	20681.10 16/6/97	14664.40 12/1/98	0.9	42.4
	Nikkei 300	248.13	249.47	248.90	303.71 28/7/97	224.86 12/1/98		
	Topix	1254.58	1260.69	1258.33	1580.28 26/6/97	1120.81 12/1/98		
	2nd Section	1355.25	1362.70	1370.41	1849.25 30/6/97	1160.55 24/12/97		

Increasing view that government will not take extra fiscal measures to boost the economy left shares drifting lower.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Jordan	Amman SE	167.62	(c)	(c)	--	--	na	na
Malaysia	KLSE Comp.	720.46	728.06	723.50	1271.57 25/2/97	477.57 12/1/98	2.3	13.2

Traders sold after index failed to hold 730, but shares pared losses as talk spread of renewed foreign interest.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Mexico	IPC	4592.62	4597.71	4606.56	5369.48 21/10/97	3359.46 2/1/97	1.2	12.6

‡Slipped into negative territory in lacklustre trading as dealers reacted to fresh falls in the oil price.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Morocco	CASA	696.0	695.65	695.46	698.00 23/2/98	461.90 3/1/97	na	na

Closed almost unchanged with a few leading stocks trading in a tight range, while others remained unchanged.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Netherlands	CBS TRtnGen	1194.3	1180.9	1175.9	1194.30 23/2/98	738.80 2/1/97	2	23.2
	CBS All Shr	684.6	676.9	674.1	684.60 23/2/98	429.00 2/1/97		

Set a new all-time high with dealers expecting further gains as investors returned to the market.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
New Zealand	Cap. 40	2258.71	2282.63	2293.60	2635.48 22/10/97	2182.01 28/10/97	4	19

Central bank warned that monetary conditions were too loose; Auckland's electricity crisis added to the gloom.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Nigeria	SE All-Share	6484.57	6465.38	6459.27	--	--	na	na
Norway	Oslo SE Ind	2068.03	2086.53	2080.54	2287.56 22/10/97	1638.03 2/1/97	1.6	14.4

Lagged other European bourses as Oslo's heavyweight oil sector was hit by lower crude prices.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Pakistan	Karachi SE	1702.86	1710.00	1674.58	2067.88 22/10/97	1341.31 7/1/97	na	na

Edged lower in thin trade as major investors moved to the sidelines. Falls outshone rises by five to four.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Peru	Lima Gen	1597.36	1608.58	1605.06	2289.40 10/7/97	1429.70 2/1/97	na	na
Philippines	Manila Comp	2116.00	2136.91	2136.30	3447.60 3/3/97	1518.00 9/1/98	1.2	14.5

Slipped back with the peso in quiet trading ahead of PLDT's results, today. Oil refiner Petron slid on margin fears.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Poland	WIG	17344.2	17130.1	17124.1	18338.40 18/2/97	13228.80 12/1/98	0.9	15.3

Shares rose after Friday's flat session, but analysts said the market was set to go lower on profit-taking.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Portugal	BVL 30	4667.81	4568.01	4562.73	4667.81 23/2/98	2165.57 2/1/97	1	35.5
	PSI 20	10837.49	10598.53	10598.9	10837.50 23/2/98	5152.34 2/1/97		

Surged by 2 per cent to an all-time high as the market welcomed news that tensions were easing in the Middle East.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Russia	RTS	311.93	305.81	305.24	571.66 6/10/97	213.38 6/1/97	na	na

Chalked up a fourth-successive day of gains, but held back as falls in the oil price hit the market's large oil sector.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Singapore	SES All-S'pore	413.15	410.52	413.60	573.03 17/2/97	324.92 12/1/98	2.4	14.3
	Straits Times	1551.91	1545.79	1553.47	2271.88 20/1/97	1073.47 12/1/98		

Investors moved to sidelines ahead of Friday's budget; in spite of index gains, falls swamped rises by seven to three.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Slovakia	SAX	153.02	153.25	154.07	208.84 21/3/97	153.02 23/2/98	na	na

Heavyweight oil stock Slovnaft pulled the market lower, under pressure from a sharp fall in the crude price.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
South Africa	JSE Gold	750.7♥	793.5	802.5	1588.10 27/2/97	670.19 5/12/97	2.4	15.2
	JSE Indl.	8026.1♥	7950.0	7969.4	9314.20 7/8/97	6715.10 7/1/98		

Firmer on expectations of an interest rate cut. However, gold stocks remained under pressure from a weak bullion price.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
South Korea	KoreaCmpEx**	543.06	522.13	513.45	792.29 17/6/97	350.68 12/12/97	2.2	15.2

Keen foreign buying pushed shares ahead for fifth day. Hopes of further government package kept investors interested.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Spain	Madrid SE	741.79	741.60	736.79	741.79 23/2/98	434.54 2/1/97	2	24.8

Ended flat after posting early gains. Most activity involved investors switching out of banks into other sectors.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Sri Lanka	CSE All Share	699.90	701.40	698.40	869.70 31/7/97	606.70 2/1/97	na	na

While foreign crossings boosted turnover, late selling by retailers held back the index.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Sweden	AffarsvardnGen	(u)	3265.5	3262.4	3315.80 7/8/97	2378.60 2/1/97	1.6	23.6

Closed slightly higher, but losses at Pharmacia & Upjohn and tool maker Sandvik erased most of the gains seen elsewhere.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Switzerland	SMI Index	6986.1	6986.7	6953.2	6990.80 17/2/98	3922.80 7/1/97	1	27.7
	SPI General	4334.81	4328.29	4308.49	4334.81 23/2/98	2586.22 6/1/97	na	na

Pared early gains as shares came off towards the close, hit by a weaker dollar and profit-taking.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Taiwan	WeightedPr.**	9147.00	9037.48	8978.51	10116.80 26/8/97	6844.75 6/1/97	1.1	25

Sixth straight rise and turnover of T$227bn was fourth-consecutive day exceeding T$200bn.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Thailand	Bangkok SET	521.82	521.83	510.41	858.97 22/1/97	339.17 12/1/98	4.4	13.9

Flat as investors await today's package of economic initiatives from the government.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Turkey	IMKB Nat 100	3305.81	2973.00	2908.43	3711.40 5/1/98	895.00 2/1/97	1.8	18.8

Surged by 11.2 per cent on optimism surrounding the deal between the United Nations and Iraq over weapons inspections.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
Venezuela	IBC	(c)	7304.40†	7232.78	10817.10 17/10/97	6061.99 12/3/97	na	na
Zimbabwe	ZSE Industrial	7967.16	7973.73	(c)	12082.00 5/8/97	8601.51 18/12/97	na	na

Ended the day flat with investors unnerved by the threat of widespread industrial action.

Country	Index	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	‡ Yield	‡ P/E
WORLD	FT/S&P World($)	(u)	271.86	270.97	271.80 18/2/98	218.81 14/4/97	na	na
	MS Capital Intl$	1007.6*	1005.7	1002.3	1007.60 23/2/98	794.50 14/4/97	na	na
CROSS-BORDER	FTSE E300	1100.95	1102.24	1100.62	1105.86 18/2/98	874.08 28/10/97		
	FTSE E100	2540.05	2547.69	2536.85	2550.82 18/2/98	1582.88 2/1/97	na	na
	HSBC JC Drgn	(u)	256.87	256.59	434.83 6/8/97	188.25 12/1/98	na	na
	ING Brngs Emrg	145.35	144.59	144.14	186.81 9/7/97	125.19 12/1/98	na	na

** Sat Feb 21: Taiwan Weighted Price 9086.81; Korea Comp Ex 528.95. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Feb 23 4610.56 +27.63. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ‡ Yields and P/E ratios are based on Datastream Total Market Indices. ‡ Midsession.

NASDAQ NATIONAL MARKET

4 pm close February 23

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ACC Corp		147	1195	50½	49⅝	50⅛	+⅝
Acclaim E			3863	4¾	4½	4⅝	−⅛
Acxiom Co		36	1820	21¼	20½	20⅝	
Adaptec		13	83920	24	22⅝	22⅞	−⅞
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Cadiss		18	5016	6⅞	6	6⅛	+⅛
Comcst Ircx	0.54	24	85	114¼	113½	114¼	+2
ComcsCm	1.08	13	92	34¾	34¼	34⅝	+¼
Casey S	0.08	25	1812	15¼	14¾	14⅞	−⅜
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Figgie A		4	176	13⅝	13	13¼	+½
Filenet			2212	31⅝	30⅝	31⅞	+⅞
Fifth Ban's	0.80	19	2419	49¼	47	48⅛	+1⅛
Firstfin		466	3265	49½	48½	48⅞	−2⅞
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Ladd Furn		23	991	19⅝	18½	19⅛	+⅛
Lam Rsrch			9448	29¾	28¼	29¼	+1⅛
Lancaster	0.53	19	968	42	41⅞	42	+¼
Lance §	0.96	23	230	24½	24	24	−½
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Octrap		322	1965	9⅝	9½	9⅞	+⅛
OptelDgthA x	0.28	18	313	38½	37⅝	38½	+⅝
Oshkosh T	0.50	73	151	19½	18½	19⅛	+⅛
OtterTail x	1.92	14	118	37⅞	37⅝	37⅞	+⅛
OxfrdHlth			88 45441	20⅝	19¼	19⅞	−¼
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
RagFinCo	0.92	17	5076	39¼	39	39⅛	
Regligen			749	1¾	1⅛	1⅞	+⅛
Resound			1544	5⅛	4⅞	5⅛	+⅛
Reuters		24	6534	63⅛	59½	59¾	−1⅞
RoadwExpr x	0.20	13	1267	25¼	24⅞	25	+⅛
RbNgst	0.12	19	2100	5¼	5⅛	5⅛	+⅛
Ross Str	0.22	17	7492	38⅞	37⅝	38	−⅜
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
StatW	0.50	4	337	17⅝	17	17½	+¼
StruDyn§		23	9243	28⅞	28¼	28⅝	+2⅞
Sumitomo§	0.80	21	3	46⅞	45⅝	46⅞	+1⅛
Summit Te		112	1238	5⅛	5⅛	5⅛	+⅛
SunMic		25	45615	46⅞	45⅝	46⅛	+⅛
Swift Tra		22	1232	33⅛	32	32⅞	+1
Sybase Inc			15488	10¼	9⅞	10	−⅛
[illegible]							

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Unitog	0.15	15	324	20	19⅞	20	−⅛
Usbncp§ x	2.60	27	564	67¼	65¾	66¼	−1⅛
US Energy			264	7⅛	6⅞	7⅛	−⅛
US Servs			204	1⅞	1⅞	1⅞	−⅛
US Tst	0.72	23	467	63¼	63⅝	63⅛	+⅛
UST Corp	0.48	24	744	26⅝	26⅛	26½	−¼
Utd Telev	0.50	22	35	107¼	106⅜	107⅛	+⅛
[illegible]							

AMEX PRICES

4 pm close February 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

[illegible]

Iraqi deal keeps oil stocks in doldrums

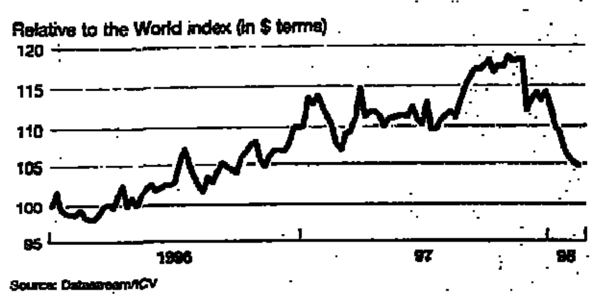
WORLD OVERVIEW

The weekend agreement on weapons inspection between the United Nations and the Iraqi government, and the meeting of the G7 finance ministers had widespread repercussions in financial markets yesterday, *writes Philip Coggan.*

The crude price dropped to a 16-month low after the deal with Iraq was announced as it became clear that Iraqi oil exports would continue.

The news prompted further gloom for the stocks of oil companies, which have fallen sharply over the past couple of months. Since mid-November, the FT/S&P oil sector has underperformed the World index by 11.6 per cent.

Oil sector



Source: Datastream/ICV

The oil price has been weak for some time since Opec raised its production ceiling, and the Asian crisis and a mild winter in the northern hemisphere hit demand.

The European oil team at J.P. Morgan thinks the decline might have been overdone. "We believe that the recent underperformance of the European integrated oil sector in the face of weaker oil prices has left several stocks at very attractive valuations. This underperformance has presented buying opportunities in Elf, Royal Dutch, Shell and OMV."

The weaker oil price did, however, give a lift to global bond markets as did the failure of the G7 meeting to secure any pledges of a new economic stimulus package from Japan. Both developments suggested that inflationary pressures would remain subdued.

That rise in bonds, allied to relief at peace in the Middle East and speculation about corporate restructuring, helped European stock markets continue their record-breaking run.

All-time closing highs were achieved in Amsterdam, Helsinki and Madrid while Paris, Frankfurt and Zurich notched up intra-day peaks before drifting off in the afternoon as the dollar weakened and Wall Street slipped into the red.

The Goldman Sachs European team recently reduced its recommended portfolio weighting in Germany and Switzerland to make room for an increased allocation in Spain. "In Germany, the near-term downgrading of our view reflects both the exposure of significant portions of that market to slower economic growth on a global basis and the continued disappointment on prospects for legislative action to facilitate corporate restructuring efforts."

Markets will be braced today for the Humphrey-Hawkins testimony of Alan Greenspan, the Federal Reserve chairman, to Congress. Mr Greenspan may lower his 1998 growth and inflation forecasts for the US economy in the light of the Asian crisis. That may remove lingering fears that the Fed could raise interest rates.

Dow turns lower as crude prices slip

AMERICAS

US shares opened mixed with news of a possible UN-led deal with Iraq adding volatility to the oil and airline sectors, *writes John Labate in New York.*

An early rally in blue-chip shares fizzled later in the session as oil prices fell. By 12.30pm the Dow Jones Industrial Average was down 24.66 to 8,389.28.

The broader Standard & Poor's 500 index fared better, improving less than one point at 1,034.27.

"The price of oil continues to look like it has no bottom," said Bill Meehan, chief market analyst at Cantor Fitzgerald.

Oil-related shares came under renewed pressure, with Exxon and Chevron leading the Dow lower. Exxon was off $3 7/16 to $61⅞, while Chevron lost $2 11/16 to $78½.

In contrast airlines gained ground on the news of the possible Iraqi settlement.

"Airlines got beaten up pretty severely on Friday and didn't do well for most of last week, but they're starting to bounce back," said Mr Meehan.

He cited lower fuel costs as a result of weak oil prices. Shares in Alaska Air climbed $2⅛ to $54 7/16, while UAL, parent company of United Airlines, rose $2¼ to $87⅛.

The technology sector also reached higher. The Nasdaq composite index rose 16.91 or 0.98 per cent to 1,745.04, nearing an all-time record.

Among computer shares, Trusted Information Systems surged 51 per cent or $6⅞ to $19 15/16 on news it would be acquired by Network Associates in a $300m stock swap. Network Associates fell $⅞ to $61⅞.

CBS climbed more than 4 per cent to $30⅞ after Morgan Stanley raised its rating on the broadcaster to "outperform".

In the banking sector, Magna Group leapt 22 per cent to $57⅞ on news it was being bought by Union Planters. Union Planters shares tumbled $3¼ to $61 3/16.

Small-cap shares moved higher, with the Russell 2000 index rising less than one point to 454.52. The Treasury market was little changed, with the benchmark long bond easing ⅛ to 103¾, yielding 5.874 per cent.

TORONTO was moving slowly in thin morning trading. Golds were dull and banks were mixed ahead of the results season as analysts honed their earnings forecasts. At noon, the 300 composite index was off 4.14 at 6,916.60.

Royal Bank of Canada shed 25 cents to C$81.45, but several other leaders in the sector gained ground. Toronto-Dominion Bank added 45 cents at C$60.65 and Bank of Montreal 35 cents to C$74.45.

Bullion's plight overshadowed golds. Barrick lost 55 cents to C$25.75 and Placer Dome 30 cents to C$16.45. Among industrials, Seagram retreated C$1 to C$55.40 and Alcan Aluminium 20 cents to C$42.90.

Oils were uniformly weak as the oil price lost ground on the news from Iraq. Shell Canada gave up 50 cents to C$33.40 and Suncor Energy 35 cents to C$50.15.2.

Mexico City in reverse

Trading across Latin America was subdued as some centres, notably Brazil, were closed and volumes in the region were down to a trickle.

MEXICO CITY was lower as worries about economic data sapped sentiment.

Shares fell on Friday as rumours of poor trade figures ran round the market following a publication delay. There was a modest return of confidence at the opening bell yesterday, but by midsession shares were again moving in reverse in spite of modest gains by index heavyweight Telmex, which hardened 10 centavos to 21.45 pesos. The IPC index ended the morning 1.99 lower at 4,595.72.

SANTIAGO shrugged off a dull opening for the peso, which lost ground against the dollar following a heavy trade deficit for January. The IPSA index was up 0.98 at 96.85 at midsession.

BUENOS AIRES moved lower. Early tentative buying quickly faded. At midsession, the Merval index shed 1.21 at 674.12.

Dutch shares hit record high

EUROPE

The news from Iraq helped, but it was a double serving of upbeat news from the chemicals sector that hoisted AMSTERDAM to a record high yesterday.

Akzo Nobel turned in top-of-the-range results and DSM, number two in the sector, wheeled out a Fl 2.7bn takeover bid for bio group Gist Brocades. The AEX index ended 17.91 higher at 1,037.68 after a session best of 1,043.92.

Akzo gained Fl8 or 2 per cent to Fl 399.80. Gist jumped Fl 4.90 to Fl 64.90 for a two-day gain of almost 19 per cent. DSM added Fl 2.70 to Fl 203.50 with the Fl 2.7bn deal seen as earnings enhancing from year one.

Financials shared in the excitement with ABN Amro rising Fl 1.50 to Fl 46.60 in 11.8m shares traded, and Aegon added Fl 6.60 at Fl 219.10. Hoogovens and VNU both rose more than 4 per cent with the steel leader adding Fl 4.20 to Fl 97.30 and publisher VNU gaining Fl 2.70 to Fl 59.80.

Among the top internationals, Royal Dutch withered along with the oil price, slipping Fl 1.60 to Fl 105.30, but Philips shrugged off a downgrade from Morgan Stanley Dean Witter to close Fl2 better at Fl 156.90.

PARIS ended little changed after a volatile session that saw shares surge to an intra-day record, but flag badly in late trading. The CAC 40 index hit a peak of 3,315.09 before closing just 10.98 higher at 3,273.48.

The bond market gained ground, which was one reason for the continued strength of banking shares. The other was persistent merger talk. BNP added FFr9.60 at FFr364.6 and Paribas FFr7 at FFr593. News of a $540m US acquisition left Société Générale up FFr16 at FFr908.

The big losers were France Telecom, off FFr7.30 at FFr274.4 and Thomson-CSF which shed FFr7.90 or 3.7 per cent to FFr204.1.

FRANKFURT rose in line with its neighbours during morning trading, with the Xetra Dax hitting a new all-time high of 4,665.19. However, the market later gave up some of its gains, weighed by profit-taking and a weaker dollar.

The index finished 27.63 higher at 4,610.66, below its existing record close of 4,627.42, set last Tuesday.

Car makers and chemicals stocks gave up ground as the dollar fell back. BASF finished at DM62.45, up 75pfg but off its day's high of DM63.06. Bayer was more resilient, finishing DM3.53 better at DM76.35.

Daimler came off a day's high of DM138.20 to finish at DM135.70, up DM1.45, while BMW ended DM35 better at DM1,637, well below its DM1,656.60 intra-day peak.

Software group SAP was in favour, gaining DM21 to DM654. In the banking sector, Dresdner moved DM1.20 higher to DM85.40 after an upgrade from Merrill Lynch.

FTSE Actuaries Share Indices — European series

February 23 National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1100.95	–0.12	–1.29	2.06	1.39	1110.89
FTSE Eurotop 100	2540.05	–0.30	–7.64	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1111.13	–1.03	–11.52	2.82	2.88	1132.75
300 Ex-UK	1095.80	+0.42	+4.53	1.58	0.54	1089.14
300 Eurobloc	1074.85	+0.68	+7.25	1.78	0.82	1079.77
300 Ex-Eurobloc	1122.31	–0.66	–7.42	2.26	1.80	1135.95
FTSE Eurotop 300 Economic Groups						
Resources	915.16	–1.44	–13.34	2.97	2.09	930.02
General Industries	993.20	+0.53	+5.24	1.97	1.01	998.61
Consumer Goods	1137.11	+0.03	+0.29	1.59	0.55	1149.95
Services	1051.25	+0.10	+1.07	2.20	1.14	1060.62
Utilities	1153.40	–0.42	–4.91	2.48	1.84	1169.12
Financials	1231.06	–0.19	–2.29	1.95	1.93	1239.98

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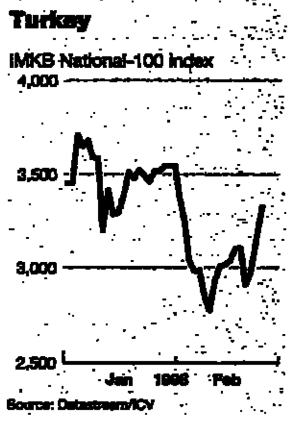
Turkey



Source: Datastream/ICV

MADRID saw brisk trade, but barely made ground overall as investors concentrated on switching out of the overheated banks sector into stocks with less stretched valuations.

"It was a technical reaction, and well deserved after what we saw in the banking sector at the end of last week," said Maria Jesus Castroviejo at Paribas.

Banking stocks gained 7.8 per cent following Thursday's $4.1bn bid by Santander for Banesto.

Yesterday, Argentaria was Pta250 lower at Pta11,050, BCH fell Pta60 to Pta4,300 and Bankinter was Pta90 lower at Pta9,640.

Utilities benefited from switching. Telefonica gained Pta40 to Pta5,010, while electricity generator Fecsa climbed Pta10 to Pta1,230.

Another beneficiary was milk producer Puleva, which gained Pta310 to Pta6,250. Analysts said investors were buying ahead of a forthcoming bonus issue, which is expected to increase liquidity in the stock.

Towards the close, profit-taking took hold and the general index closed just 0.19 higher at 741.79, well below its intra-day peak of 747.42, but still its seventh successive record.

HELSINKI moved to an all-time high for the sixth successive session, boosted by strong gains at Nokia. The telephone equipment maker climbed FM22 to FM545, surpassing its lifetime record of FM534.10, set on October 21 last year. The general index ended 84.32 higher at 4,056.96.

ISTANBUL shot ahead from the opening bell with trading volume surging strongly on the news from Iraq. By the end of the morning the IMBK National-100 index was up more than 9 per cent before going on to hit a session peak of 3,330.30.

At the close, the index was 333.81 or 11.2 per cent higher at 3,306.81 in turnover which jumped to 33,500bn lira, a 50 per cent increase on Friday.

MOSCOW rose by 2 per cent, with the RTS index ending 6.12 higher at 311.93, although dealers said gains were restrained following falls in the oil price on news of a potential Iraqi settlement. Russia's stock market is dominated by oil stocks.

Written and edited by Jeffrey Brown, Jonathan Ford, Paul Gregan and Peter Hall.

SOUTH AFRICA

Johannesburg took a jolt for golds shares in its stride, ending with the all share index 23 higher at 6,826.

Industrials put on 76.1 to 8,026.1 and financials continued to power forward, adding 119.1 to 12,316.2. In contrast, golds slithered 42.8 or 5.4 per cent to 750.7 as the bullion price tumbled under $293.

Financial services group Capital Alliances jumped R1.90 or 7 per cent to R29.

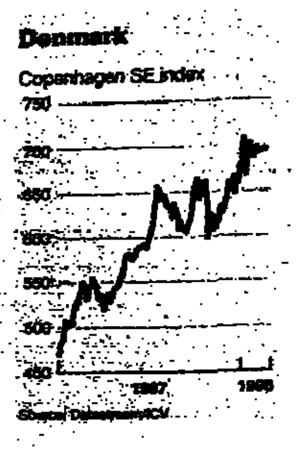
MARKET FOCUS

Danes unfazed by poll surprise

Denmark's torpid stock market took last Thursday's surprise election call by Mr Poul Nyrup Rasmussen, the prime minister, in its stride.

The vote had to be held before September 8 and he chose to go the polls on March 11 because he believes that the timing will give his minority coalition government, made up of his Social Democratic party and the small social liberal Radical party, the best chance of another term.

Denmark



Source: Datastream/ICV

Yet investors, who have seen the leading share index rise by a measly 3 per cent this year, have their eyes on other events.

At one stage it looked as if the country's manufacturing industries would be paralysed by a strike following the breakdown of negotiations for new, two-year collective wage agreements. This was set for March 2.

However, the official labour market mediator yesterday used his powers to postpone industrial action for 14 days.

Of greater long-term significance is the referendum on May 28, when the voters will be asked to approve or reject the European Union's Amsterdam treaty.

A vote in favour is on the cards, judging by the winter opinion polls, but should the electorate reject the treaty, a tricky situation would arise both for Denmark and the EU, as the treaty requires ratification by all member states before it can come into force.

If the stock market views the election with equanimity, it is because whoever forms the next government there are unlikely to be any major changes in economic policy.

The present Social Democratic-dominated government has demonstrated its credentials as a market-friendly administrator by de-privatising the national telephone company, Tele Denmark, which is now controlled by Chicago-based Ameritech. It also agreed to the abolition of the wealth tax as part of a budget compromise in 1996.

Traders and investors would like to see the next government abolish the 0.5 per cent turnover tax on share transactions and introduce a less stringent, as well as a less complex, regime for taxation of capital gains on shares held by domestic, private investors.

Both reforms would be more likely if the present government is replaced by its rivals for office, the Liberal and Conservative parties.

Denmark's GDP growth under Mr Nyrup Rasmussen's time at the helm has averaged 3 per cent a year. Unemployment has fallen from more than 12 per cent to almost 7 per cent, and in 1997 the general government budget moved into surplus for the first time for 10 years.

There is only one slight blemish on the government's record, a decline in the current account surplus from DKr30.4bn ($4.3bn) in 1993 – 3.5 per cent of GDP – to about DKr8bn last year.

For this reason, a touch on the fiscal brakes is expected later this year by most commentators, whoever is in government.

Hilary Barnes

Wait-and-see mood dents Tokyo

ASIA PACIFIC

Shares in TOKYO moved lower in the wake of last week's disappointing economic package and weekend pressure on Japan from the G7 meeting to further stimulate its economy, *writes Michiyo Nakamoto in Tokyo.*

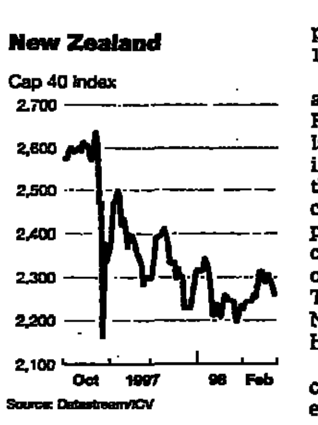
The Nikkei 225 Average declined 146.75 to 16,609.49, the day's low. The best of the session was 16,716.58.

Investors adopted a wait-and-see stance to ascertain whether the government intends to take further measures to help the economy recover. The yen's weakness against the dollar also dampened investor sentiment.

Although Japan faced a battery of criticism at the G7 meeting for its failure to adopt effective stimulus measures, the government responded with its oft-heard excuse that more time was needed to assess the full benefits of measures already taken. The gloomy mood was tempered by lingering hopes that further deterioration in the economic outlook might yet force the government to make a policy U-turn.

Figures published yesterday by the Economic Planning Agency showed business conditions continued to weaken for the third month running, with consumer spending remaining sluggish and the employment environment becoming increasingly severe.

New Zealand



Source: Datastream/ICV

Losing issues outpaced gainers 705 to 416 with trading volume low at 320m shares. The Topix index of all first section stocks fell 6.11 to 1,254.58.

Sharp, the electronics group, fell Y40 to Y1,000 following a profits downgrade. Mitsubishi Electric, which is pulling out of the Japanese and European personal computer markets, gave up Y7 or 1.8 per cent at Y373.

WELLINGTON fell steeply after statements from the Reserve Bank of New Zealand, interpreted as a warning on interest rates, sent the bond market lower. The central bank said monetary policy was too loose. The 40 capital index closed off 23.92 or 1.1 per cent at 2,258.71. NZ Telecom gave up 11 cents to NZ$7.98 and Carter Harvey Holt 8 cents at NZ$2.72.

SEOUL rose for the fifth consecutive session as foreign buying interest boosted sentiment, although dealers said late profit-taking by local investors pegged back gains towards the close.

The composite index rose 14.11 or 2.7 per cent to finish at 543.06, off its day's high of 553.53. Buying was broad based with 745 shares ending higher, heavily outnumbering the 105 fallers. Dealers said profit-takers emerged when the index hit 550, placing sell orders in large capitalisation stocks which have outstripped the market during the recent rally.

Korean Electric Power was hit by late selling to close Won500 higher at Won21,500, off its day's high of Won22,100. LG Electronics ended Won300 lower at Won23,700, having hit a high of Won25,300.

JAKARTA was helped by the activities of foreign investors, who bought heavyweight stocks with overseas, dollar-priced listings to take advantage of falls in the rupiah.

It fell back through the 9,000 level against the dollar on continued uncertainty about whether the government intends to implement its widely-criticised plans for a currency board.

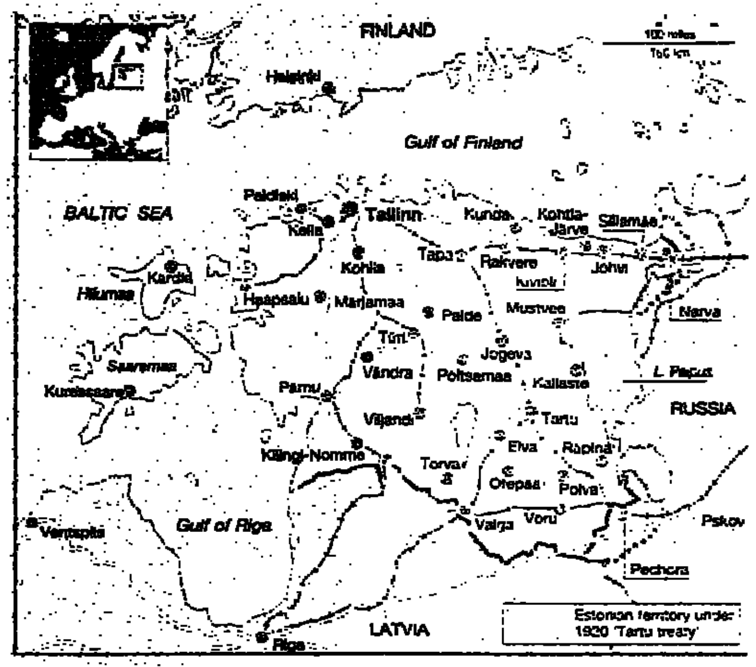
Arbitrageurs sought to cash in through buying shares in Telkom, up Rp150 at Rp3,950, and Indosat, up Rp1,075 at Rp15,000, to cover short positions taken in the dollar-priced ADR stock.

The buying activity helped the composite index to finish 9.8 higher at 505.04 for a gain of almost 2 per cent.

KUALA LUMPUR closed lower on profit-taking although shares trimmed losses on mounting optimism that the United Nations had secured an agreement with Iraq. The composite index ended 7.6 lower at 720.46, having earlier dipped to 711.38.

Estonia

After 50 years of Soviet occupation, this small country has vaulted into a new era of freedom and prosperity. **Anthony Robinson** and **Matej Vipotnik** report



■ **Area:** 45,227 sq km (the Tartu Peace Treaty of 1920 defined 47,549 sq km)
■ **Population:** 1,462,130 (January 1 1997 estimate)
■ **Main cities and population:**

Tallinn (capital)	420,470
Tartu	101,901
Narva	75,211
Kohtla-Jarve	68,533
Pärnu	51,607

■ **Currency:** Estonian Kroon (EEK)
■ **Exchange rate:** Feb 13 1997 $1 = EEK 14.6017

Economic summary

	1997 Estimate	1998 Forecast
Real GDP growth (annual av. % change)	10.0	7.5
Industrial output (annual av. % change)	13.0	7.0
Unemployment rate (% of labour force)	3.5	3.5
Inflation (annual % change in CPI)	11.2	11.0
Current account balance (% of GDP)	-14.0	-9.2
Foreign trade balance ($bn)	-1.1	-1.0
Foreign convertible currency debt ($m)	550.0	780.0
State budget balance (% of GDP)	-0.5	1.5
Three-month interbank rate (%)	8.6	13.5

Constitution

• **Official name**
Republic of Estonia
• **Legal system**
On October 7 1992, the Estonian State Assembly, the Riigikogu, declared legal continuity between the 1918-40 republic and the present state. A new constitution was adopted in June 1992 by referendum
• **National legislature**
Unicameral assembly, the Riigikogu, of 101 members
All members are directly elected but parties need a minimum of 5 per cent of the vote to enter the Riigikogu. Members can sit as independents. The Riigikogu's term is four years
• **Electoral system**
Proportional representation
There is universal suffrage for Estonian citizens over the age of 18, whether resident in Estonia or abroad. Other residents, mainly Russians and other minorities, cannot vote in general elections, but are able to vote in municipal elections
• **Head of state**
President, currently Lennart Meri, elected for a four-year term by the Riigikogu on October 5 1992 and re-elected on September 20 1996

Sources: EIU, Nomura, Ministry of Foreign Affairs

From satellite to shining star

The few years since Estonia regained independence from its giant neighbour Russia in August 1991 have sufficed to lay the foundations of an economically thriving new Nordic democracy in the eastern Baltic.

A series of youthful pro-business governments moved fast to dismantle the old Soviet structures, push through a currency board-based monetary reform and privatise state companies for cash. Six years of macro-economic stability based on a strong, convertible currency, the Kroon, have already attracted more than $920m of foreign direct investment into this hard-working, mainly Lutheran country of less than 1.5m people.

Wealth is starting to spread beyond Tallinn, the capital city, which has attracted more than 70 per cent of FDI to date.

Tallinn, with its mixed Russian and Estonian population, is the seat of government nestling within the walls of the old Hanseatic trading city and surrounded by industrial suburbs revived by the inflow of foreign money and technology. Beyond the city wall lie the ports which form one of the most important gateways for transit trade to Russia and beyond.

Once depressed industrial towns such as Parnu, the famed University town of Tartu and even Narva on the eastern border with its huge Soviet-era factories and 95 per cent Russian speaking population, are starting to share in the new prosperity.

It is sometimes hard to remember that this is a small country whose $4.4bn GDP is roughly equivalent to the wealth of an average western European town of around 250,000 inhabitants.

Much of the vitality comes from the youth and enthusiasm of those running government, businesses and banks and their openness to new technology. *"L'imagination au pouvoir"* - the unfulfilled dream of the Paris students during the May 1968 events has become a reality in Estonia and the results are impressive.

The pioneering monetary reform, for example, originally undertaken against World Bank and IMF advice, encouraged the development of a vibrant commercial banking system and an entrepreneurial, export-oriented manufacturing and service-based economy.

Three years of solid growth were followed last year by an export, investment and consumption-led boom fuelled by a combination of rising foreign investment, a resumption of economic growth in Russia and dynamic economic conditions throughout the rest of the Baltic.

The combination produced more than 11 per cent growth in the first three quarters of last year, sucking in imports at an unsustainable 60 per cent annual growth rate. The central bank acted to tighten monetary conditions just weeks before the Asian crisis and a short-lived crash on the Tallinn stock exchange in October.

This took the form of a rise in the commercial banks' capital adequacy ratio from 8 to 10 per cent of deposits and higher minimum capital requirements while EEK700m was withdrawn from government accounts and transferred abroad. As a result, interest rates soared from 6 per cent in September to 15 per cent in December.

These measures, the impact of which was enhanced by the withdrawal of funds from the equity market by foreign investors, were accompanied by fiscal tightening.

This is expected to push the public sector's fiscal surplus up from 0.5 per cent in 1997 to 1.8 per cent of gdp this year. As a result, growth is expected to moderate to around 7.5 to 8 per cent from an estimated 10 per cent for 1997 as a whole.

European Union governments recognised the emergence of a new "Baltic tiger" at their Luxembourg summit last December when Estonia became the sole Baltic state to join the Czech republic, Hungary, Poland, Slovenia and Cyprus as a front-runner in the EU's expansion to the east.

Even before the Luxembourg decision Estonia's 1994 EU Association Agreement had given it an advantage over its neighbours by including tariff-free access into EU markets for textiles and steel. This was the clincher for several foreign investors. It made Estonia a privileged location for strategic investments targeted initially on access to western Europe but, in a longer time frame, looking forward towards the opening up of potential markets in the former Soviet Union.

Within a few months of independence Estonia's own foreign trade was re-orientated towards western markets. But its railways and ports remained important conduits for the export of metals and other materials from the vast military stockpiles then being liquidated in the former Soviet Union.

Today this vital transit trade is being underpinned by heavy investment in new, improved and largely privatised port facilities. The process is aimed at improving Estonia's ability to compete with its Baltic neighbours and the big new ports planned by Russia on the Finnish Gulf. The forthcoming privatisation of the railways, telecoms and other utilities is expected to further improve efficiency.

At the same time, Estonia's export-orientated growth is being boosted by the new foreign and domestically-owned companies. Leading foreign investors, such as the Singapore-based Tolaram group and Elcoteq of Finland, have revitalised traditional textile, paper and engineering companies and staked out Estonia's claim to become a leading high-tech manufacturing centre.

A dynamic and rapidly consolidating banking sector is also in the forefront of ambitious plans to turn Estonia into a regional hub for banking and other services as well as a base for companies investing in the other Baltic states and in the St Petersburg region.

Russia's former capital, and its 5m people, lies only 130 kms east of Narva, the eastern border town, whose return to prosperity reflects the foreign investment which is revitalising the over-manned Soviet-era textile and arms factories.

EU membership is on the horizon and the prospect of eventual Nato membership was re-inforced last month by the signature in Washington of the Baltic Charter by the presidents of the US and the three Baltic states.

Around 65 per cent of Estonian trade is now with EU countries and 50 per cent with Finland and Sweden alone. As a result, Estonia now feels secure and self-confident enough to concentrate more attention on improving relations with its eastern neighbour, Russia.

Signs are multiplying that a new chapter is about to be written in this historically difficult relationship. The Russian government is showing a more positive attitude towards Baltic economic and trade co-operation and a new, high powered Russian ambassador has arrived in Tallinn.

Normalisation of bi-lateral relations requires progress on three fronts. The first is signature of a new border agreement under which Estonia will cede some territory awarded to it "in perpetuity" by the Tartu Treaty of 1920. In return Moscow will formally acknowledge the illegality of the Soviet invasion of 1940.

The second is the abolition by Moscow of the double tariff regime unilaterally imposed in 1991. This is a relic of past bad blood and mainly harms ethnic Russian businessmen who dominate bi-lateral trade.

The third issue concerns the general status of ethnic Russians, especially those who were originally settled in the big cities and industrial centres to strengthen the Soviet grip on Estonia after 1944.

The exodus of Soviet military personnel and voluntary emigration has reduced the pre-independence population of ethnic Russians and other former Soviet citizens while a steady growth in those applying for Estonian passports and citizenship has cut the share of non-citizens in the population to around 12 per cent. Of these 170,000 hold aliens passports and around 125,000 hold Russian passports.

Original fears that such people would form a disgruntled fifth column have diminished as the Estonian government fulfilled its obligations under the Helsinki and other international agreements. Moscow has also got more used to the post-Soviet world.

But most importantly, ethnic minorities are now sharing in the prosperity and security which their new homeland is starting to deliver.

IN THIS SURVEY

Glyn Genin, Anthony Robinson, Anna Genety

ECONOMY • by Matej Vipotnik and Anthony Robinson

Thrill of the laissez-faire

Growth continues its ride upwards on the back of Europe's purest free market

Brussels bureaucrats might be getting more than they bargained for when Estonia negotiates to join the European Union early in the next decade. The small Baltic state is one of the world's most free economies, imposing no barriers on trade and with politicians who frown upon government meddling in the economy.

Economy minister, Jaak Leimann, a former management consultant and academic, says: "Our liberal philosophy is due to the fact that we are so small and we just don't like state-owned industry."

Estonia's 'tailor made' economic model, as Mr Leimann calls it, has allowed the economy to grow rapidly, outpacing its southern neighbours Latvia and Lithuania in the development of a functioning market economy in the run-up to joining the European Union.

The currency board was the first element of Estonia's reformist success. Created in 1992 as part of a currency reform package, the currency board pegs the kroon to the DM at a rate of 8 to 1. By requiring that all currency in circulation is backed by foreign exchange reserves on deposit with the central bank, the currency board has imposed fiscal discipline, although inflation is proving difficult to push down to single digits.

The automatically adjusting functioning of the currency board makes the arrangement predictable and has promoted foreign investment and trade. But, with inflation higher than Germany, there have been fears that an overvalued kroon could make Estonian exports uncompetitive.

The kroon has appreciated by around 60 per cent since 1992, although the chosen parity against the DM at that time deliberately undervalued the currency to take future inflation into account.

Rapid improvements in industrial labour productivity, up by 33 per cent since 1993 according to estimates by Nomura, have helped to keep unit costs competitive. Indeed, Nomura calculates that unit labour costs actually fell by 11 per cent last year.

This has been achieved thanks largely to high productivity gains from revamped, privatised textile, engineering and other foreign owned plants. A combination of better management, access to EU markets and investment in new technology underpins rising living standards and rapid capital formation.

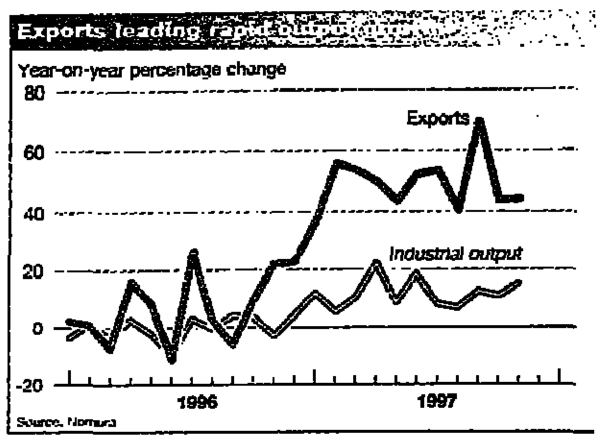
The open economy has also enjoyed a dramatic expansion of credit, partly financed by foreign borrowing. The result was a sharp rise in imports of consumer as well as capital goods and a current account deficit of just less than 10 per cent of GDP last year.

Growing signs of domestic over-heating, including a runaway stock market boom and rising asset prices, coincided with the knock-on effect of the Asian crisis to bring about a policy turnaround in the last quarter of 1997. The government raised bank capital adequacy ratios from 8 to 10 per cent of deposits, cut back government spending and aimed for a budget surplus in 1998.

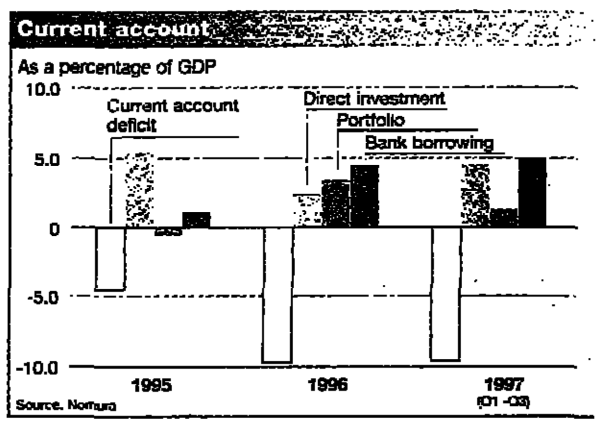
The Ministry of the Economy estimates that exports will continue to grow strongly this year as heavy foreign investment and re-invested profits raise the capacity and efficiency of the export manufacturing sector.

Estonian firms are shifting toward the production of higher value added goods, contributing to the creation of a strong export sector, while higher interest rates are expected to dampen the appetite for imported consumer items.

Exports leading rapid output



Current account



The country is also rapidly consolidating its role as a transit hub for the Baltic region. Its service economy is growing rapidly in the transportation, travel and communications sectors, exploiting the country's position as a bridge to Russia and beyond to central Asia. The expected normalisation of relations with Russia this year, coupled with recovery in the Russian economy, should improve Estonia's current account position by boosting revenues from both transit trade and direct exports. Russia, the other Baltic states and Ukraine are becoming a focus for investment by Estonian and Estonia-based companies and banks. Food industry exports, in particular, have been boosted in the past year by free trade agreements with Latvia and Lithuania as well as the Ukraine.

"Our aim is to establish a European atmosphere for industry," says Mr Leimann, emphasising that foreign investment is expected to increase as EU accession nears.

"The state is a facilitator, not an investor," he says. But, in its role as facilitator, the government is ready to support investors in the paper and pulp industry by guaranteeing long-term wood supplies from state forests at market prices and in assistance with linked infrastructure investment.

The Soviet Union did not have the capital to exploit the vast natural resources of all its component parts. With political independence restored, Estonia is taking a new look at its natural resources - including shale oil, which gives it a secure, albeit polluting, cheap domestic electricity source, and extensive forests.

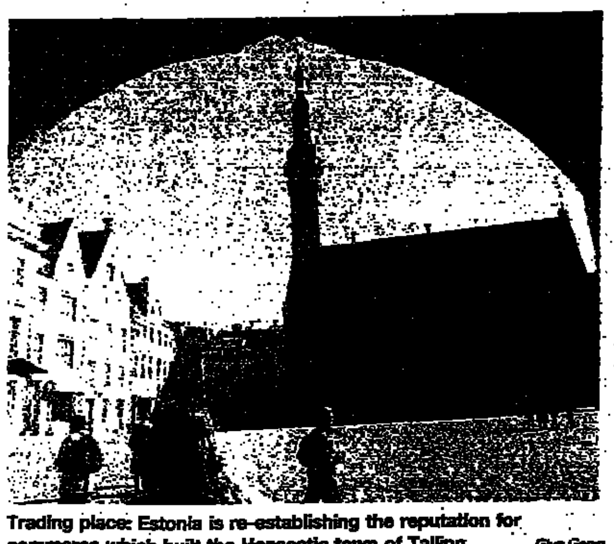
Until now the forests have mainly been exported as untreated round wood. The future lies in down-stream processing into increasingly sophisticated paper products which raise the added value by up to tenfold.

Through policies such as these Estonia aims to catch up with the living standards of its Nordic neighbours - and play an important role in spreading that prosperity eastward into populous St Petersburg and north western Russia.

TRADE • by Anthony Robinson

All points east and west

An EU-oriented Estonia is becoming a hub for commerce with Russia



Trading place: Estonia is re-establishing the reputation for commerce which built the Hanseatic town of Tallinn. Glyn Genin

Estonia had no alternative but to re-orient its trade towards the west after 1991 when the disintegration of the Soviet Union and the collapse of transferable-rouble denominated Comecon trade coincided with the double whammy of a rise in the price of Russian oil to world levels. The downside was a two year recession and a collapse in living standards.

The turning point came in 1994 when the EU signed a liberal Association Agreement with Estonia which enhanced its attraction as a low-cost, high-skill production site by offering free access into EU markets, even for textiles and steel. The agreement, combined with macro-economic stability, a stable, convertible currency and a series of open and pro-business governments sparked off a foreign direct investment boom whose first impact was a steep rise in imports.

Last year the strong rise in imports of capital equipment and intermediate goods coincided with a boom in consumer imports. This reflected rising real incomes and consumer confidence against the background of a stock-market boom and low interest rates. As a result, imports rose 60 per cent by value,pushing the current account into a deficit equivalent to 10 per cent of GDP.

The third quarter of 1997, however, appears to mark the long-awaited cross-over period when sufficient new export-orientated capacity came on stream to offset the strong rise in imports. Meanwhile, the last quarter gave the first indications that higher interest rates and a tougher fiscal and monetary policy stance were dampening consumer demand and the imports which fed it.

The emphasis on slower and more export and investment-led growth in 1998 is expected to consolidate the new trend. Continuing high FDI levels will finance much of the new capital imports while export production will inevitably keep imports at a high level.

A clutch of top exporters ship more than 95 per cent of their output to foreign markets, mainly to Finland, Sweden and other states in the EU but also to Russia and other former Soviet states. Several key exports have a high import content, however. Top exporter, Elcoteq, for example, estimates that 70 per cent of the value of its exported mobile telephones and other assembled products is made up of previously imported components. Textile exporters also import all their raw materials.

The most effective exporters are those which process home produced natural products, mainly food processors and the country's sole paper plant which turns low value round wood into finished product with six times the added value.

Raising added value and upgrading the product range is the strategy of most industrial producers. But much of the country's income is generated by services - principally providing transport, harbour and shipping facilities for transit cargoes to and from the former Soviet Union. Big potential growth, however, is also expected by the tourist industry and by the ambitious banks who are busy building up Estonia as a regional business and financial service centre.

Heavy investment is under way to modernise dock and harbour facilities, including new oil-tank farms, metal processing facilities and industrial parks. Among the main obstacles to trade are cumbersome, time-consuming customs formalities at the Russian-Estonian border and the need for heavy investment to modernise the rail network which brings most cargoes to the ports.

Much has been done to improve the efficiency of the rail system which was an integral part of the Soviet rail network until 1991. Kaido Simmermann, the director for infrastructure development of the soon to be partially privatised state railways, notes that the railways moved 14 freight trains a day in each direction on the main east-west Narva-Tallinn line last year, exceeding its design capacity of 10 trains per day. At the same time, the railways doubled traffic on the Petersi-Tallinn line, which brings freight up from as far as central Asia, to 10 trains in each direction.

The problem is that decades of under-investment have left the railways with worn-out locomotives, ageing rolling stock and great need for modernisation which is only just beginning.

Estonia's main trading partners

Exports

Country of destination	11 months of 1996 EEK m	%	11 months of 1996 EEK m	%	% Change
Russia	3,720.0	16.4	6,815.4	18.7	183.2
Finland	4,183.9	18.4	5,805.3	16.0	138.8
Sweden	2,635.3	11.6	4,831.2	13.3	183.3
Latvia	1,878.7	8.3	3,162.1	8.7	168.3
Lithuania	1,274.8	5.6	2,237.6	6.1	175.5
Germany	1,661.8	7.3	2,106.0	5.8	126.7
Ukraine	1,139.1	5.0	1,781.0	4.9	156.3
UK	791.7	3.5	1,314.8	3.6	166.1
Denmark	813.2	3.6	1,214.9	3.3	149.3
Netherlands	684.7	3.0	1,191.0	3.3	173.9
Total	22,687.8	100.0	36,390.1	100.0	160.4

Imports

Country of origin	11 months of 1996 EEK m	%	11 months of 1996 EEK m	%	% Change
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Russia	4,494.6	13.1	7,824.3	14.4	176.3
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	2,837.9	8.3	4,901.1	8.9	172.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	700.7	2.0	1,807.2	3.3	257.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	1,106.0	3.2	1,625.1	3.0	146.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	1,006.4	2.9	1,405.0	2.6	139.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Estonian Ministry of Foreign Affairs

BANKING • by Matej Vipotnik

Intervention helps to brake the banks

The central bank is proving a vital check on the brash commercial sector

Judging by the sepia photographs on the walls of Estonia's central bank governor, Vahur Kraft, little has changed in the room since the 1930's. By their own admission, Estonia's central bankers are conservative men. It is an inclination which can be a virtue when dealing with Estonia's brash commercial banks.

Starting from a clean slate at the outset of independence in 1991, Estonia's ambitious banks embraced cutting-edge technology in their desire to build effective, profitable western style institutions. "The PC, internet and telephone banking have been our ideology," says Peeter Torim, managing director of foreign relations at Hansabank, Estonia's largest bank.

In effect the banks leapfrogged entire generations of previous technology. Paper cheques were never introduced, bank cards, more than 800,000 at last count, arrived instead. Customers can withdraw money from the automated teller machines but they can also deposit money, pay utility bills, wire money and place an order for stocks. The same transactions can be conducted over the internet or the telephone.

Estonia's banks have expanded aggressively, diversifying into stock-broking, insurance, leasing and asset management. And, as Estonian banks have been borrowing abroad at increasingly favourable rates, costs for the consumer have been falling.

The banks' performance is also good new for shareholders. "Our focus is on shareholder value," says Ain Hanschmidt, chairman of Uhisbank, Estonia's second largest bank.

The system has proved to be remarkably solid in the past five years, not least because a shakeout in 1992 weeded out the weaker banks.

At the time, risky lending practices, inexperienced managers, and the dearth of banking legislation buried half of the 42 small and undercapitalised banks on the market.

The survivors merged or were taken over as Estonia's central bank decided to raise minimum capital requirements and increase supervision.

The banking sector was further strengthened as new bank laws and legal support systems were put in place and Estonia began harmonising its banking regulations with EU norms.

In 1997, Estonian banks seemed to be doing extraordinarily well. Bank assets and credit grew rapidly and record profits were being made from securities trading. But the expansion of credit, financed by foreign borrowing, raised concerns that the economy was growing too rapidly.

In October, as turmoil spread through Asia, the central bank increased the banks' capital adequacy and liquidity requirements in an attempt to slow down the expansion of credit, which had grown 90 per cent on 1996. The measure tightened liquidity and sent interest rates sharply upward.

Tallinn's stock market plunged 60 per cent in November, dragging down the value of many a bank portfolio. With bank shares accounting, at one point, for some 80 per cent of stock market capitalisation, the effect was significant.

The cross-holding of bank equity in the banking sector made banks particularly vulnerable to falls in the stock market and banks reported considerable losses from securities trading.

The stock market crisis coincided with large falls in other emerging markets and the kroon briefly became a target of speculators concerned by Estonia's large current account deficit. The deputy governor of the central bank, Peter Lohmus, says that the Asian crisis and its impact on Estonia has confirmed the correctness of the central bank's prudential policies.

Nonetheless, concern remains that the measures taken in October were not sufficiently effective in reducing the growth of credit or in slowing down the economy. Mr Kraft says that capital adequacy ratios may be raised to 12 per cent from 10 per cent, if necessary.

Large banks, such as Hansabank and Hoiubank would not be affected by higher capital adequacy ratios but smaller banks, which are less capitalised, would feel the pain.

The stock market crash and the high interest rates have intensified competition between the banks in a market that is small and overbanked. This is hastening another round of consolidation in the sector.

Not only is domestic competition fierce but the market is also open to foreign competition. This is increasing pressure on the banks to strengthen before foreign entrants knock on the door.

Even Hansabank is not immune from this sentiment. "Every bank in Estonia is too small," says Indrek Neivelt, chief executive of Hansabank Estonia. If the merger talks between Hansabank and Hoiubank are successful, the new bank has set its sights on expansion into neighbouring Latvia and Lithuania, which together with Estonia make a market of 7m consumers.

Uhisbank, Estonia's other large bank, has also been searching for opportunities which might boost its growth. It is starting a bank in St Petersburg and investing DM20m in equity capital in partnership with a strategic foreign investor.

PROFILE Hansabank & Hoiubank

Joint account to fund expansion

Aare Kilp recalls working in a department store in the university town of Tartu in 1992 when food was still rationed, an energy crisis was looming and pundits in Moscow were predicting the imminent collapse of the Estonian economy.

Six years on Mr Kilp is chairman of Hoiubank, the privatised former state monopoly savings bank, and is deeply involved in merger talks with Hansabank, Estonia's biggest bank.

The original timetable for negotiations was scrapped earlier this month to give both parties more time to call in the professional help needed to deal with some of the more complex issues linked to a merger which, if consummated, will create the largest financial services group in the Baltics with assets of $1.4bn.

While Russian banks are still painfully coming to terms with low-inflation and a more competitive environment, Estonia's super-modern banks are rapidly consolidating and drawing up ambitious plans to expand abroad, including into Russia itself.

Hansabank and its main rival Uhisbank, are involved in both trends.

With 1.5m people, Estonia's domestic market is small and, with 11 commercial banks, over-banked. Last summer consumer loan rates fell below those in Finland and the US as bankers jostled for clients. "That was unhealthy competition," says Indrek Neivelt, chief executive of Hansabank Estonia.

Competition intensified when the Tallinn bourse nose-dived last October, sending interest rates upward.

The proposed Hansa-Hoiubank merger would replace competition by co-operation between two institutions which have been moving on to each others' turf.

More interest: Hansabank may double its resources Glyn Genin

Hansabank, traditionally strong in the corporate market, has been wooing retail customers, while Hoiubank has been using its strong retail base to launch incursions into the corporate market. A merger would combine Hansabank's clout in the corporate market with Hoiubank's retail network of 200 branches.

Mr Neivelt argues that the two banks would be a good fit. Both have experienced rapid growth and double digit returns on equity. Both have made large investments in staff training and technology. But rapid growth is stretching human resources to the limit, says Mr Kilp.

The solution, both believe, is to put their eggs in one basket to contain the costs of managing and developing increasingly sophisticated information technology. As Mr Kilp puts it, "all the time we are mending the same bicycles in the IT department".

Both have harnessed technology to expand their range of services to include telephone and internet banking. Currently the separate IT departments of the two banks are the largest such teams in Estonia.

The merger would also signal a coming of age for Estonia's banks, which are looking at expansion abroad to sustain growth rates.

Hansabank ventured into Latvia in mid-1996, buying Deutche Lettische Bank, which was renamed Hansabank Latvia and is now that country's sixth biggest bank. Mr Neivelt says plans are afoot to start a subsidiary in Lithuania. Hoiubank first ventured abroad when it bought the small Moscow-based FABA bank last September.

By merging, Hansabank and Hoiubank would no longer be trampling on each other in the rush to new markets avoiding a repetition of a case last year when three Estonian banks bid for the same small Latvian bank, says Mr Neivelt. None got the deal.

But expansion into Russia will be put on the back burner. "The Baltic is the natural region for us," says Mr Kilp.

Matej Vipotnik

PROFILE Uhisbank

Empire building on rights stuff

"Ten years down the line we'll be an international bank inside the European Union with branches from St Petersburg to Vilnius. We'll be serving international clients and will have international shareholders, including Russians," says Ain Hanschmidt, president of Eesti Uhispank.

Mr Hanschmidt was speaking in London at the start of a two week road-show through the financial capitals of Europe and North America to launch Uhisbank's $45-50m issue of Global Depositary Receipts. The sale of 11.16m new shares through the issuance of 3.72m GDRs is designed to pump up the bank's capital base and fund ambitious domestic and foreign expansion plans.

Estonia with its 1.5m people and $4.4bn GDP is already too small to satisfy the ambitions of a bank cobbled together in 1994 from the wreckage of 10 small banks caught short by the 1992 banking crisis. Its origins are reflected in the name – Uhis or United Bank in translation.

The first years were spent cleaning up a substantial bad debt portfolio and integrating the motley group. But after this inauspicious start the bank's young management team embarked upon an ambitious expansion strategy aimed at raising the share of private and corporate business while retaining as many as possible of the local and national government banking accounts which currently provide more than a third of its business. This is expected to drop to around 10 per cent as other markets expand. Heavy investment in new IT systems is planned to back the bank's expansion strategy and more sophisticated services.

The bank already perceives its natural zone of activity to encompass the nearly 15m people, with a combined GDP of around $32bn, who live in the three Baltic states and the Russian city of St Petersburg together with the surrounding Leningrad Oblast. Plans are advanced for setting up a new bank in St Petersburg.

"We are following our Estonian, Finnish, Swedish and other foreign clients into Russia," says Jürgen Lamp, the bank's marketing director.

"At present Russian banks are roughly in the same state we were in four years ago. We know where they are and how they'll probably develop. We all speak Russian, I was a sergeant in the Soviet army. We understand and can get on with our Russian colleagues, especially the bankers around the same age as we are," adds Margus Schults, the vice president.

The plan is to limit equity investment in the new Russian bank to around DM20m and gather deposits locally to fund the loan portfolio. "At present we have no plans to go beyond St Petersburg but that is only a five year perspective. Russia is a huge place with big potential. We believe that Estonian banks are well placed to emulate the Dutch banks. They carved out significant stakes in much bigger countries from their own small but strategic country inside the EU," Mr Hanschmidt says.

At present Uhispank is level-pegging with Hansabank but would fall to second place if Hansa's proposed merger with Hoiupank goes through. Once the GDR issue and capital increase is complete Uhis is likely to step up its courtship of Tallinna Banka. A merger would create a banking group of equivalent size and strength to Hansa-Hoiupank and consolidate the country's banking structure around two powerful poles of attraction.

Anthony Robinson

RELATIONS WITH RUSSIA • by Anthony Robinson

Coming in from the cold

Commerce is building bridges over the bitter legacy of Soviet occupation

A marble boulder, cleft in half, stands in the forecourt of Narva station, just before the railway line crosses the single track river bridge into Russia. On it is inscribed simply "memento mori", in memory of the dead.

It was at this station in 1941 that the first of more than 100,000 Estonians, the cream of pre-war independent Estonian society, were packed into cattle trucks at bayonet point by Soviet NKVD troops on their way to enforced exile in Siberia where thousands died of cold, hunger or disease.

The memory of that tragic epilogue to the illegal Soviet occupation of the Baltic states in 1940, carried out with Hitler's approval according to the terms of the infamous Molotov-Ribbentrop pact of 1939, will long cast its shadow over Russia's relations with Estonia and the other Baltic states which shared a similar fate.

It is impossible to understand the fierce determination of the Baltic states to become full members of both the European Union and Nato without reference to these events which were followed by the Nazi takeover of 1941 and a bloody replay of Soviet re-occupation three years later.

When, after three years of Nazi occupation, the resurgent Red Army advanced across the lands it had ceded in 1941 it found its way blocked not only by the German Wehrmacht but also by Waffen SS units recruited from anti-Soviet Estonians.

After several bloody battles the Red Army steam rollered on to re-establish Soviet control over the Baltic states which first became part of the Russian empire after Czar Peter the Great's victory over the Swedes at Poltava in 1709.

Even at that time Russian domination was perceived as a backward step for what was then called Livonia.

His newly conquered territory's Swedish administration so impressed Peter that he considered using it as a model for Russia as a whole. He dropped the idea when he found that the Swedish king spent more on the administration of tiny Livonia than the Czar spent on ruling his entire Empire. Under the system, Livonia was allowed to subside to the Russian level of bureaucratic sloth.

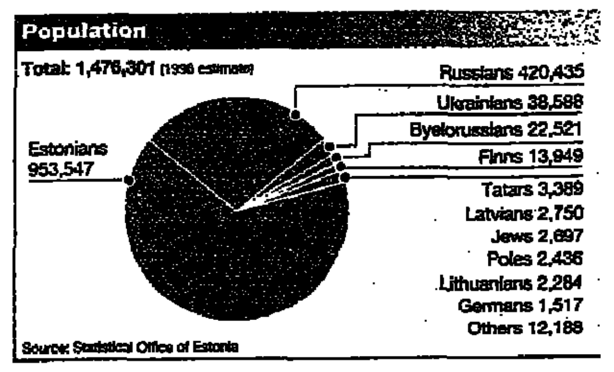
As a result of such a history Estonia shares with its Baltic neighbours the deep-rooted and widely held perception that Russia represents oppression and backwardness and that the Baltic states belong historically, culturally and in every other way to the West.

It was that conviction which led them to declare their independence in the immediate aftermath of the failed August 1991 coup attempt which led to the disintegration of the entire Soviet Union four months later.

It is a conviction whose acceptance by Moscow forms the only realistic basis for building a new and mutually beneficial relationship between Russia and its closest western neighbours in the future.

There is growing evidence that this is now accepted in Russian government circles, although Moscow still maintains formal opposition to Nato membership for the Baltic states and claims the right to keep a close eye on the civil and other rights of millions of ethnic Russians living in the, now, independent states, most of them former Soviet citizens who were drafted into the region after 1944.

In Estonia, some 420,000 ethnic Russians remain, representing 28.5 per cent of the overall population and the biggest group after native Estonians, according to the figures from the Estonian Statistical Office.



Source: Statistical Office of Estonia

From the Estonian point of view the general atmosphere has been greatly improved by the withdrawal of Soviet forces and the dismantling of the colonial-style Soviet system. Under the old regime all the vital elements of the Estonian society and economy – the ports, the railways, the top ranks of the administration and police – were all in non-Estonian hands.

Only two real problems are outstanding. The first is Moscow's insistence on maintaining a double tariff regime on Estonian exports to Russia. The second is Russia's unwillingness to sign a new border agreement. This would resolve the dispute over Estonia's formal claim to land ceded to it "in perpetuity" under the 1920 Tartu treaty but which has been administratively part of Russia for decades.

After years of negotiations Estonia has accepted the new border, now marked by barbed wire and elaborate new border crossings on both sides. But Moscow is still hesitant about signing an agreement which would involve formally recognising the illegality of the Soviet takeover of 1940.

But Moscow's recent appointment of Alexei Gluhhov, a sophisticated senior diplomat, as Ambassador, together with the participation of Russian prime minister Viktor Chernomyrdin in last month's Riga summit meeting of the 11 strong national Council of Baltic Sea States are taken as welcome signs of a more constructive and positive Russian approach.

Mr Gluhhov says that Russia is waiting for the right moment to make the kind of official apology which, as President Lennart Meri points out, Moscow has already made to the Czech republic, Poland and Hungary, for the crimes of the Soviet regime. "Our objective is to sign the treaty this year," Mr Gluhhov says.

"The biggest problem is still a mutual lack of confidence. This was evident in the recent rejection, without discussion, of Russian proposals for security guarantees and the lack of response to president Boris Yeltsin's unilateral offer of a 40 per cent reduction of Russian troops in the region.

"But we are now at the start of a new attempt to establish a dialogue between our governments. Up to now we have just had occasional bilateral visits or meetings on the fringes of international events."

A new inter-governmental commission was discussed between Mr Chernomyrdin and Mart Siiman, his Estonian counterpart, during last month's Baltic summit and will be launched shortly.

One of the first practical results is likely to be removal of the double tariff regime which was imposed as an act of pique. The tariffs mainly damage ethnic Russians, who dominate cross-border trade with the St Petersburg region, and the inhabitants of Russia's former capital which traditionally has been an important market for relatively cheap and high quality Estonian foodstuffs and other products.

Even with the discriminatory tariff regime, two way trade with Russia rose 70 per cent last year. Abolition of this punitive rate could unlock the gates to a rising tide of direct investment in Russia, not only by Estonian companies but by foreign investors using Estonia as a base for their future expansion plans in Russia.

POLITICS • by Anthony Robinson, Matej Vipotnik and Liisa Rohumaa

Director a cut above

President Lennart Meri brings gravitas amid the tyros of a young democracy

Hollywood central casting could not have done better. President Lennart Meri is himself a film-maker. Tall, elegant, white haired and witty, he looks like a president, has a passion for history and the gravitas which comes from age - very useful in a country run by people in their thirties or forties.

Now aged 69, Mr Meri was not yet a teenager when he was packed off to Siberia along with his parents and thousands of other compatriots in 1941. That experience, the start of a lifetime as an involuntary Soviet citizen, sparked an intense interest in the nature of totalitarian power and a desire to dig out the truth of a tragic and complex period of Estonian history which encompassed invasion and occupation by both the great tyrannies of our age.

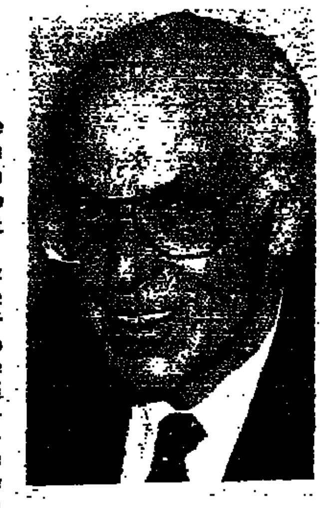
"For us the Nazi and the Soviet holocaust are equally evil, the swastika and the hammer and sickle, equally repugnant", he says reflecting on the controversial and confusing period in 1944 when many Estonians, and other Balts, enrolled in special Nazi SS units in a vain attempt to prevent Soviet re-occupation.

President Meri has played a key role in persuading Estonians to show understanding for the ethnic Russians in their midst and strongly supports moves to integrate Russians and other former Soviet citizens into Estonia as willing and loyal citizens of the new state.

For the president, post-Soviet Russia is "still a country searching for its identity, still in the midst of a de-colonialisation process which could be long but hopefully not too dramatic.

"But try to imagine when the question of Russian membership of the EU comes up. A state can only function properly when it is neither too small nor too big. This raises the question of where Russia ends and the destiny of huge regions with vast natural resources which feel they will be able to develop much faster if not ruled from Moscow.

"I would be happy to see a US-style federal system evolve in Russia. But for that you need people able to build a new administrative system and new laws. It will take a lot of time. Disintegration may have to go further before, as in Europe now, the parts can come together again - of their own free will."


Happy man: President Meri

Chorus of approval

Political stability and minority coalition government rarely go hand in hand. In Estonia they appear to do so. Broad national consensus on the key issues of foreign and domestic policy helps.

Polls show overwhelming support for EU and Nato membership, a strong Kroon and balanced budgets. Privatisation will be complete with the utilities in the government programme this year.

Rising real incomes and falling unemployment are visible proofs of the success of free-market, pro-business policies. Significantly, ethnic Russians are among the strongest supporters of EU membership which is a powerful factor persuading increasing numbers to learn Estonian and take up citizenship.

Mart Siiman, the prime minister, a former political journalist, heads the KMU coalition party and a government of non-party technocrats and a handful of ministers from the small Progressive and Farmers parties.

The government, which levies a flat 26 per cent income tax and runs a minimal welfare state, "operates with broad agreement on the need for a balanced budget and a strong Kroon and there is also broad support for proposed pension and other reforms," Mr Siiman says.

Siim Kaallas, who as central bank governor introduced the 1992 monetary reform, is contemplating bringing his Reform Party into the coalition before elections due in spring 1999. He is a strong supporter of abolishing corporation tax completely and taxing only personal incomes and consumption.

Political life in the Riigikogu, or parliament, is dominated by ethnic Estonians. Ethnic Russians and other minorities tend to vote either for the small ethnic Russian party or the centre party led by Edgar Savisaar, which is the closest thing to a Scandinavian style social democratic party. Mr Savisaar, a key figure during the transition from Soviet rule, is currently head of the Tallinn city government.

"In future I hope people will vote according to their political, social and economic aspirations not ethnic considerations," says Mr Siiman.

THE EUROPEAN UNION • by Anthony Robinson

The West is won over

Success in wooing the EU confirms Estonia's emergence from the Soviet shadow

The defining moment in Estonia's current foreign policy came in November 1996 after a public statement by William Perry, the US defence secretary, that the Baltic states were not ready for Nato membership.

Toomas Ilves, an American academic of exiled Estonian parentage who was appointed foreign minister a few months earlier vividly remembers his reaction. "Perry's words sounded pretty definite to me. From that moment we decided to switch all our efforts towards seeking early membership of the EU instead."

That decision was vindicated last December when the EU's Luxembourg summit endorsed Estonia's selection as the first former Soviet state to negotiate membership. It will enter bilateral negotiations alongside the Czech Republic, Hungary, Poland and Slovenia, the first former Yugoslav state to qualify for the starting round of the EU's eastern enlargement process.

"For Estonia to get to the starting line required solving two big problems. First, we had to avoid the risk that Brussels would follow the Nato precedent and limit entry negotiations to the same three central European states – the Czech Republic, Hungary and Poland. And we had to sell ourselves, and actively persuade the EU's southern tier countries, in particular, that including us would not damage their interests," says Mr Ilves.

The fact that around 65 per cent of Estonia's trade now takes place with EU countries, and more than 50 per cent with EU members Finland and Sweden alone - certainly helped Estonia's case. So did an economic performance which exceeds most of the Maastricht criteria for entry into European Monetary Union.

Two important external factors also helped both Estonia and Slovenia get into the first round. The first was US pressure on Brussels to extend a "soft-security" umbrella over at least part of both the Baltic and the Balkan regions. The second was the EU's decision to drop Slovakia from the EU frontrunners because of concern over prime minister Vladimir Meciar's domestic political arrangements.

But much of the credit is due to decisive action by the Estonian government.

"We realised that the EU's southern tier knew very little about northern Europe. They just had a vague idea that eastern enlargement could damage their interests," says Mr Ilves.

To tackle this problem head on the government decided to open new embassies in Spain, Portugal, Greece, Holland and Ireland – in addition to existing embassies in all the other EU countries. "The new ambassadors made the rounds of the agriculture and other sensitive ministries and spread the word about Estonia and our desire to enter."

While this wooing was taking place Mr Ilves declined other invitations and tirelessly pressed the flesh around all the EU capitals. "While my colleagues elsewhere were flying off to Kazakhstan or the middle east I did not visit a single non-EU country in the vital run-up to the EU's Madrid and Luxembourg summits."

Estonia's desire to be embraced by the EU is primarily a security matter, although entry also holds out serious practical political and economic benefits. "Estonia is not like Norway, which is already a Nato member and has enormous energy resources. We are a small, open country with a large and powerful neighbour. We already carry out more than 65 per cent of our trade with EU countries. We need to be inside the EU decision making process," Mr Ilves says.

Foreign investors, especially from the US and Asia who see Estonia as a low cost, tariff-free base for entry into EU markets, concur.

In an ideal world Estonia would have preferred to enter EU negotiations together with Latvia and Lithuania. Once Estonia joins the EU the Union's external border will move right up to the Russian frontier and Estonia's southern border with Latvia, a mere administrative line on the map in Soviet days, will become a, hopefully short-lived, dividing line between Europe's ins and outs.

In the meantime, the already widening gap in living standards between Estonia and the other Baltic states is likely to widen further as a result of the effectively privileged access to foreign investment gained by Estonia's earlier prospect of full EU membership.

This would be a serious concern, were it not for the prospect of steeply rising prosperity throughout the Baltic basin area. In this broader context Estonia is a strategically important, but relatively small, member of the Council of Baltic Sea States, the 11 nation grouping dedicated mainly to pan-Baltic economic co-operation. At the recent summit meeting of the CBSS the region's prime ministers endorsed an ambitious business-sponsored programme for energy, environmental and infrastructure investments designed to underpin steeply rising trade and investment across the Baltic.

All three of the now independent Baltic states are anxious to develop their own identities. For 45 years they were lumped together as Soviet Baltic republics closely controlled by Moscow. Now they are seeking to build their individual identities within the comforting overall "soft-security" blankets provided by membership of the EU and such bodies as the CBSS. Significantly, the latter includes Russia as well as Germany and Sweden, the historic rivals for Baltic domination, along with Iceland and Norway.

Although bitterly disappointed at first by their exclusion from the first round of EU enlargement Latvia and Lithuania will be kept closely informed about the progress of negotiations. The hope is that knowledge gained from Estonia's experience in dealing with Brussels will make their own talks easier and quicker when the time comes.

The timing of such round talks however is currently obscure and Tallinn is gearing up for a long haul with Mr Ilves predicting a "4-6 year battle" for membership.

Meanwhile Estonia, with its linguistic as well as physical closeness to Finland and its Lutheran traditions of self-reliance, will continue pushing ahead with the legal and institutional changes which are not only necessary to qualify for EU membership but seen as part of the country's broader effort to catch up for more than 50 blighted years.

"Estonians have always seen themselves as a Nordic people," says Mr Ilves. "We aim to end up roughly where we would have been if we had not suffered decades of Soviet occupation – we want to become just another normal, boring Nordic country."

HARBOURS • by Anthony Robinson

Gateways to prosperity

Estonia's ports are investing to be the doorways in and out of Russia

Few developments symbolise the transformation taking place in the trading environment of the eastern Baltic more exactly than the changing fate of the huge grain silos and grain loading equipment at Tallinn's fast-growing Muuga port.

When the silo was ordered from Finnish contractors by Soviet planners it was designed for the import of millions of tonnes of grain for on-shipment by rail to farms and live-stock complexes throughout the western part of the Soviet Union.

Nothing revealed the economic incompetence of the Soviet system more than the transformation of a traditional grain producing and exporting region into the world's biggest grain importer. But, last year, the return to rationality in the now largely privatised post-Soviet economy was underlined.

For the first time in decades the flow was reversed. More than 1m tonnes of Russian grain was unloaded from railcars at Muuga port into the silos and then *exported* by Russian grain traders who have taken out a long lease on the facilities with the intention of building up exports in the years ahead.

Other hopeful signs from the east were the reverse of a decade-long decline in Russian oil production and the resumption of economic growth after years of steep decline.

For the Baltic ports in general, and Estonian ports in particular, growing evidence of a recovery in Russian trade and output, coupled with dynamic investment and export-led growth in the Estonian economy and rapidly rising trade and investment flows in the western part of the Baltic all spell good news.

This is because the Baltic ports are the historic gateways leading deep into Russia and the former Soviet republics as far away as Kazakhstan, the Caspian region and beyond to central Asia.

Harbour master: Aadu Luukas' new oil terminal — Anthony Robinson

The faster the growth of prosperity in Russia and its hinterland, the more trade passes through the Baltic ports.

In expectation of rapid growth in future transit trade the Estonian ports are all investing heavily and rationalising their structure.

Cargo handling is being moved from Tallinn city port to the rapidly expanding facilities at Muuga to the east of the city and to Paldiski, the former Soviet nuclear submarine training and operational base, some 40kms to the west.

Tallinn city port is being developed as an exclusively passenger port capable of handling an expected 17 passenger ferries a day this summer and up to 170 cruise ships over the season, compared with 147 last year. A new yacht basin is being developed in the former closed naval dock next to the terminal and ambitious real estate development is planned for the huge area in front of the passenger terminals. It will be built on land freed up by the departure of the Soviet armed forces and the opening up of the former closed military section of the port.

It is a similar story at Paldiski where the closure of the submarine base and investment of EEK100m in new wharves and handling equipment has created a virtually new commercial port specialising in the handling of bulk cargoes such as round-wood and metal scrap.

But Muuga is the port of the future where billions of Kroon are being spent ensuring that Tallinn, ice free in four out of five years, remains competitive with the other Baltic ports as well as the big new ports planned by Russia beyond St Petersburg to lessen its dependence on the traditional gateways now outside its political jurisdiction.

One of the biggest investments at Muuga is the new Pakterminal oil terminal, a 50-50 joint venture between a group of Estonian entrepreneurs headed by Aadu Luukas, the newly elected head of the Estonian industrialists association, and Paktank of Holland. The company has spent $50m to date and plans to spend a further $8m a year building a super-modern oil terminal and rail wagon unloading facilities. It already handles 5m of the 8m tonnes of Russian oil passing through Tallinn annually.

Russia's Lukoil and several US companies are also investing in new storage tanks and other facilities at the port while a US investor is planning a $200m steel processing and warehouse complex.

Ferry story: Tallinn's port will welcome 17 passenger ships a day — Glyn Genin

ENVIRONMENT • by Leyla Boulton

Eager to come clean

The country saw the green light even before the requirement to meet EU criteria

Long an eager student of western-style market reform, Estonia is also emerging as teacher's pet on the loftier subject of Europe's environment.

Even before it was short-listed last year to start talks to join the European Union, Estonia has worked hard, primarily with help from Finland, its closest western neighbour, on improving its environment.

Embracing the EU's so-called environmental acquis – almost 100 "green" laws covering everything from sewerage to car exhaust standards – is one of the stiffest conditions of entry to the bloc.

The European Commission, which drew up the short-list, says that countries will be able to negotiate longer "transition periods" for complying with some of the legislation.

A study* commissioned by the Commission suggests that implementing the acquis could cost the 10 central and east European countries that hope to join the EU Ecu120bn.

But the challenge ahead is not just financial. "They know the beautiful principles of what needs to be done but it is not so clear how they will do it," says Kristiina Isokallio, senior adviser for central and east European co-operation at Finland's environment ministry.

Of Estonia, Ms Isokallio says the country barely has enough lawyers to put the EU requirements into its national legislation, let alone enforce them.

Allan Gromov, the Estonian environment ministry official in charge of EU affairs, says the transformation is about "changing mentalities and building democracy so that people accept that regulations and laws are not there to suppress you but to protect you".

Under Soviet rule, laws were "for ignoring" and the environment was trampled under foot by central planners and state-owned factories as a free factor of production.

Villu Reiljan, Estonia's environment minister, says the country plans to spend EEK10bn to implement an environmental clean-up strategy running to 2010.

But Estonia also expects to negotiate a transition period for complying with EU directives for curbing sewage, pollution from large combustion plants and the amount of rubbish that can be dumped into landfill sites.

It has focussed so far on upgrading its water-supply and sewerage system, as a result of which Tallinn, the capital, already complies with EU standards for drinking water and sewerage. Another 10 small towns and communities are to benefit from a Ecu10.6m loan to rehabilitate existing plant or build it from scratch. But most Estonian municipalities, for lack of finance, continue to dump their sewage into rivers – not unlike a number of EU cities, including Brussels and Milan.

A headache specific to Estonia, however, is pollution left behind by former Soviet military installations dotted around the country. The worst case is at Sillamaë, where waste from a uranium-processing plant was simply dumped into the ground, just 20m from the sea.

Mr Gromov, whose own father was a Soviet officer, says the dump will cost more than EEK4m to neutralise. Elsewhere foreign aid has already taken care of the problem. Liquid radioactive waste left from Paldiski's training centre for the crews of Soviet nuclear submarines, for example, has already been collected and stored with Finnish help.

A problem stored up for the longer-term is the pollution generated by Estonia's oil-shale based electricity generation.

"In 10 to 15 years there will be no prospect for oil shale production," says Mr Gromov, who reckons it will cost more to clean up than produce. It will also, he reckons, be a major issue in Estonia's negotiations to join the EU. Neighbouring countries are bound to complain that Estonia enjoys an unfair advantage from cheap but dirty electricity.

But Mr Gromov also points out there will be business opportunities for Estonia's neighbours when it does switch away from its main indigenous energy source.

Apart from using more biomass from its own forests and combined heat and power, Estonia will need a new national combustion plant for electricity generation. The energy for that is likely to be natural gas, which Estonia does not produce, and it could come from Norway via Finland, Germany, and Sweden. Foreign contractors are also likely to be required to build the new plant.

*Compliance Costing for Approximation of EU environmental legislation in the CEEC. EDC 48 Lower Mount St IRE-Dublin 2 Ireland tel 35316611903 fax 35316614991

Tallinn bathes in glory

Estonia has got off to a flying start in upgrading its sewage and drinking-water treatment network with aid from Finland and other west European nations.

Now municipal authorities are considering privatising Tallinn Water, the jewel in the network's crown.

"A number of grooms are visiting this rich bride's bedroom," says Allan Gromov, the Estonian environment ministry's director for European Union affairs.

Foreign companies interested in investing in Tallinn Water include the two French water-based conglomerates, Compagnie Generale des Eaux and Lyonnaise des Eaux, plus Berlin Wasser.

Like all Estonian water utilities, Tallinn Water, which treats the Estonian capital's water and sewage, was transferred from state to municipal ownership after independence. The decision to sell all or part of it to private sector investors rests with the city government.

The company, makes no secret of its hunger for new investment to complete its modernisation.

With some EEK100m aid from neighbouring Finland followed by a EEK90m loan from the European Bank for Reconstruction and Development, Tallinn Water has already upgraded the capital city's Soviet-era sewage treatment works to levels complying with European Union sewerage standards.

Western contractors such as Finnish contractors YIT have done well in the process.

"Estonia has been easy for us," says the company, which carried out a big share of the work at Tallinn Water. "They have been very eager to develop their country."

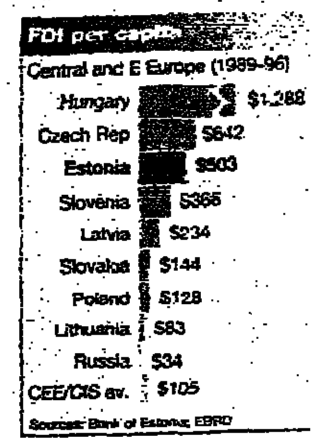
Peep Pāro, Tallinn Water's director of water treatment, says the next challenge is to develop an environmentally-sound means of disposing of sewage sludge.

The company's favoured option for the sludge, which is currently piled up in waste land around the plant, is to recycle it into granulated compost which can be delivered to farmers.

Leyla Boulton

FDI • by Anthony Robinson

Centre of excellence



Estonia is developing as a regional centre for foreign investment

Estonia's ability to lure investors from the US, Asia and Russia, as well as from its Nordic neighbours and the EU generally, has pushed the country into third place in the former Soviet world's per capita foreign direct investment stakes. This small republic, with fewer than 1.5m inhabitants, received $503 in FDI *per capita* between 1989-96 compared to $1,288 for Hungary and $642 for the Czech Republic (which was boosted by the huge Volkswagen investment in Skoda Automobilova).

The pace of new FDI, and the re-investment of profits by established investors, is growing. In 1996 Estonia attracted FDI of EEK1.8bn. But it received EEK1.6bn in the first half of 1997 alone with the bulk of money going into manufacturing, retail and finance.

Perhaps even more surprising is the fact that Estonian, or Estonian-based, banks and companies have become the leading source of investment from within the region itself into central and eastern Europe. This outward investment amounted to $27 per capita in 1996 compared to less than $8 for its nearest rival, the Czech Republic.

The pace of outward *investment from* Estonia into Russia, Ukraine and its Baltic neighbours, in particular, is expected to increase rapidly as more and more local and foreign firms use their Estonian base as a launch-pad for expansion into bigger but less transparent neighbouring markets.

Estonia's attractiveness to foreign investors as an efficient low cost manufacturing and export base was increased by the terms of Estonia's liberal Association Agreement with the EU. This ensured tariff and quota free entry for Estonian-made textiles and steel as well as other industrial goods. That initial advantage has been enhanced by Brussels' choice of Estonia as one of five frontrunners in the first round of *EU* enlargement negotiations.

"We find it difficult to *attract US or Asian* companies which are already established in the EU but we are *an attractive alternative* to investing in the EU itself for those still planning their European ventures," says Jüri Sakkeus, chairman of the Estonian Trade and Investment Board.

Estonia's open-door policy for foreign investors is already paying dividends. More than 50 per cent of Estonia's exports last year were generated by foreign owned companies and exports to EU markets accounted for around 65 per cent of all exports.

The government's tariff-free trade policy also maximises the advantages of Estonia's geographical position and its highly developed transport and port network.

"Narva in the east of the country is only 130kms from St Petersburg with its market of more than 5m people. Stockholm is only 320kms away and Helsinki is 70kms away just across the gulf. Nesté, the Finnish oil company, has set up its regional headquarters here. Coca-Cola exports to the other baltic states. Elcoteq, the Finnish owned electronics company, is expanding into Hungary and Russia from here. Ruhrgas of Germany and Gazprom have a joint venture fertiliser plant," says Mr Sakkeus, quoting from the growing list of investors expanding into the region from their newly set-up Estonian base.

Despite the virtual completion of industrial and service sector privatisation, which has put more than 70 per cent of the economy in private hands, a new wave of utility privatisation will provide further opportunities for foreign investors, adds Vaino Sarnet, director general of the Estonian Privatisation Agency.

PROFILE The Tolaram Group

Paper prophets in material world

Foreign expertise is transforming rusting relics of Soviet inefficiency into money makers

A classic over-manned, technologically backward Soviet style textile plant called Balti Manufaktuur was the Singapore-based Tolaram group's first investment in Estonia. The story of its turnaround into a modern, profitable plant exporting 98 per cent of its output to EU and Scandinavian markets is relevant to thousands of similar plants throughout the former Soviet Union.

Balti was the first in a series of strategic, long-term investments in Estonia and the Baltic region by an Asian group anxious to secure a low cost, but efficient, production base in the former Soviet empire for export to EU and global markets.

Tolaram, which began life in 1948 as a family-owned textile company *in Indonesia, has since blossomed* into a $1bn annual turnover global industrial and trading group.

It decided to make Estonia the base for its strategic foray into Europe in 1994 and began by buying *Balti, complete with a mixture of* ageing Soviet, Czech, East German and western machines and a 1200 *strong labour force.*

The plant, in the heavily ethnic-Russian industrial port area to the west of Tallinn, was barely working at a third of capacity. According to Hillar-Ormes Konts, the plant's general manager, it was without working capital, denied credit from the banks and facing bankruptcy before Tolaram bought it outright from the privatisation agency in March 1995.

The factory, now re-named Baltex 2000, used to import its cotton from Uzbekistan and export 100 per cent of its untreated cotton textile output to Russia. It employed 3,600 people in its heyday in the 1960's.

But the interruption of cotton supplies and collapse of the Soviet market thrust the plant into life-threatening crisis after the collapse of the Soviet Union in 1991, a position exacerbated by the subsequent imposition by the Russian government of double tariffs on Estonian *exports.*

Three years later the re-organised textile plant is profitable, working to full capacity and exporting 98 per cent of its output to western markets.

Turnover doubled to around EEK350m between 1995 and 1997 and is expected to reach EEK430m by 1999 when new machines are installed and a EEK150m overall investment plan in new plant and technology is completed.

Losses of EEK1m a month in 1995 have been transformed into an expected EEK7m net profit in 1998. *Labour productivity has* tripled but no-one has been laid off. Natural wastage alone has trimmed numbers to around 1,000 people, of *whom around* 95 per cent are Russian-speakers. The rest are Estonians and ex-pats, including KS Tripathi, the chief executive, and his chief engineer.

The enthusiastic co-operation Tolaram received from an initially suspicious workforce at Baltex 2000 confirmed the choice of Estonia as the hub of its European expansion plans.

Since its initial purchase of Balti Manufaktuur the group has gone on to acquire a former wool spinning plant in Parnu, which it is converting into a cotton spinning, weaving and dyeing complex called Lotus Colours. It has also bought a non-woven textile plant at Viljandi called Baltex non-wovens and made a couple of major real estate investments in Tallinn.

Through these investments, and the re-investment of profits, Tolaram has become the biggest single foreign investor in Estonia and one of the largest earners of foreign currency. It has also become a company which the government feels it can turn to when faced with a particularly tricky problem – such as the salvation of the Kehra paper plant.

The collapse of the Soviet market spelt disaster for Kehra Pebar, the only pulp and paper plant in thickly wooded Estonia.

Closure of the ageing pre-war pulp and paper factory in 1992 promised an uncertain future of unemployment, cold and poverty for the entire population of the small town 40kms from Tallinn where the plant was the sole employer and purveyor of heat.

In vain the Estonian government invited the big international paper companies to try and rescue the plant. All decided it was too old, too small and too difficult.

In 1995, and by now rather desperate, the government asked Tolaram to see if it was possible to breathe new life into the plant.

Pulp was among the commodities which the trading and industrial group bought and sold on a global basis but Tolaram had no prior industrial experience in the pulp and paper business.

The plant, built in 1938 and nationalised by the Soviet regime, was on offer from the government's bankruptcy committee at a salvage value price and was sold as a non-performing asset.

"The government invited us to take a look even though we had no industrial experience of paper mills. To help us we brought in experts from *Scandinavia. The big* companies were all used to thinking of massive investments and much bigger plants. *But we thought it might* be possible to bring the plant profitably back to life with the right management approach and a bit of courage," Mr Tripathi, a textile engineer who spent 10 years in Kenya with Tolaram before coming to Estonia, recalls.

Tolaram decided on a series of relatively small investments. The boilers were converted from polluting mazout to gas and overhauled; the forklift trucks were repaired or replaced, the log de-barkers and other machinery was overhauled and EEK3m was invested in a new water treatment plant to curb water pollution.

After two months of essential repairs and investments the first trial run took place in October 1995. The 550 strong workforce resumed their jobs.

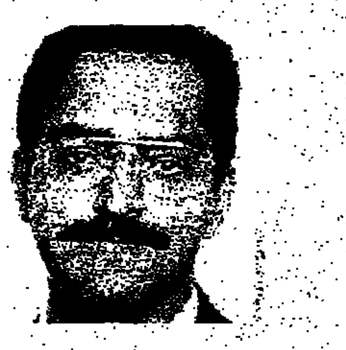
Production built up to 55 tonnes of paper a day for a monthly average of 1,625 tonnes throughout 1996. Last year output rose steadily to full annual capacity of 47,000 tonnes a year by the fourth quarter. Production costs per tonne fell dramatically from $357 a tonne in the first quarter to $260 a tonne as monthly output doubled over the year.

With world paper prices averaging $550 per tonne over the year the plant started generating sufficient profit to warrant the relatively small further investment needed to boost capacity to 60,000 tonnes.

At the same time Tolaram started investment in a new plant inside the existing grounds to produce tissue paper. When completed later this year the new plant will transform the viability of the entire complex for a total investment of around $20m, small beer by international industry standards.

Anthony Robinson

Renaissance man



Sonny Aswani

Estonia was the last place on Sonny Aswani's mind when the then Moscow-based representative of Singapore's Tolaram group left the city for a two-month reconnaissance trip around the former Soviet empire in 1994.

After more than two increasingly frustrating years in Moscow his task was to identify somewhere in this huge and disparate region where the Asian industrial and trading group could safely and profitably buy and restructure assets and carry on trade.

"I was sent to Moscow in 1991 to test the market, but became increasingly frustrated. There was no transparency, no-one had a clear negotiating mandate and when we *made one step forward the* bureaucracy forced us to take two steps back. We were also constantly being asked for *protection "fees"* to make sure we were not disturbed," he explains. The cost of renting accommodation, providing security and hiring staff also made Moscow "frightfully expensive".

"After a couple of years it became clear that we were spending all our time putting out fires – not running our business.

"When I reached the Baltic states I realised they stood out from the rest of the former Soviet Union. By 1994 I was convinced that Estonia was where we should establish ourselves."

The soft-spoken, 34 year old Kent University-educated business *economist was relieved above all to* have found a place "where officials had a problem-solving approach and were both competent and non-corrupt". He was particularly impressed by the quality of *middle-level officials whom he* describes as "hard-working and dedicated".

On the basis of Mr Aswani's recommendations the Tolaram group rapidly developed into the largest single foreign investor in Estonia. Tallinn has also become the base for the group's expansion elsewhere in the Baltic states and Ukraine and for pilot ventures back in neighbouring Russia itself.

"We are currently making up our minds about whether to chose Estonia or Latvia for a big greenfield investment in pulp and paper. Both countries have lots of wood which they currently export in untreated round-wood form."

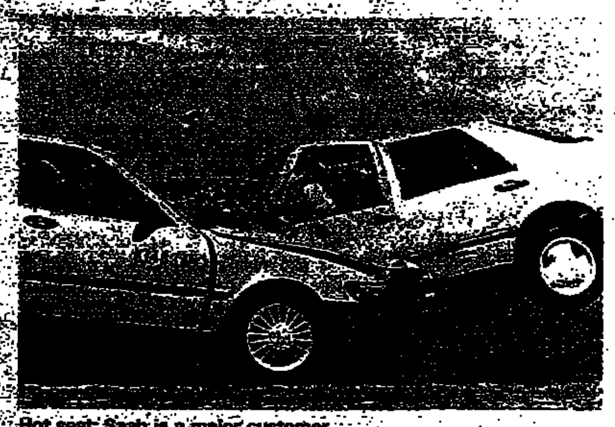
Tolaram already owns Dauteks, Latvia's biggest textile company which is in the midst of a $25m modernisation plan. Other big projects in the pipeline include buying up the 80 per cent of Alytaus, a Lithuanian textile company, it does not already own when the company is fully privatised in April. The group also has several smaller industrial projects in the pipeline in Ukraine and in Russia "where conditions are definitely improving".

The scale of investment reflects the strategic, long-term nature of Tolaram's activities in the region.

"Being here in the Baltics enables us to be in Europe without incurring European level production costs. Estonia's EU free trade agreement gives us direct and immediate access into our West European and Scandinavian "front garden". The former Soviet CIS states, with their growth potential, are our backyard," adds Mr Aswani.

PROFILE Norma

A secured future



Hot seat: Saab is a major customer

With the inscrutability typical of Soviet central planning the Estonian toy manufacturing company called Peoples Enterprise Norma was ordered one day to stop making toys and start making seat-belts. The order came down after the Soviet politburo mandated in the early 1970's that seat-belts must be installed in in all Soviet cars.

Not that Norma has done poorly in the seat-belt business. From 1971 its production lines have turned out more than 100m seat-belts, 3m in the past year alone.

From its heyday at the vanguard of socialist seat-belt manufacturing, Norma is now supplying car makers including Saab of Sweden and General Motors of the US.

The turnaround began in 1991, when Estonia initiated radical free market reforms which drove many businesses into the ground. But Norma stumbled on and, following a management buy-out and the re-organisation of its management board, the firm was on solid ground for growth.

Today, Norma is the biggest industrial firm quoted on the Tallinn bourse and an exporter of 98 per cent of its production. Under the stewardship of chief executive, Peep Aviksoo, who joined the firm in 1996 from his previous post as marketing director of the state lottery, Norma's turnover in 1997 grew 28 per cent on the year to EEK500m. Profits were up 118 per cent to EEK137m.

But Norma's current success owes nothing to chance. "Foreigners who come here see that our goals and our attitudes are like theirs," and "they're impressed," says Mr Aviksoo, who argues that the label 'Made in Estonia' should be a sign of good quality at a reasonable price.

This attitude, as well as various international-standard certifications, has helped Norma win a slew of orders from western car manufacturers. Norma now produces 37 different metal and plastic car parts for Saab, some of which are designed collaboratively over a computer network by engineers from the two companies.

It is Norma's commitment "to meet the highest requirements on price, quality and service" that has led GM to include the Estonian company in its world-wide top 150 suppliers list, the only east European firm to make the grade.

Norma competes against firms of up to 10 times its size, including TRW and Allied-Signal of the US, AutoLiv of Sweden and Takata of Japan. It recently secured a contract to supply the new Opel factory at Gliwice in the Silesian district of southern Poland.

In spite of growing success in western markets, Norma's principal market remains Russia, with up to 88 per cent of its production exported there. Its long-standing relationships with car and truck manufacturers in Russia and its familiarity with the ins and outs of post-Soviet business give Norma a competitive advantage over western manufacturers exporting to Russia.

That is not to say that business in Russia is simple. While an important market for Norma, Mr Aviksoo concedes that it is also risky. Payments are often postponed, making cash flow management a tricky business. But delays can be double-edged. Last year Norma made an extraordinary profitof EEK28m, reflecting the delayed payment of money which had been written off in 1996.

Despite the problems Norma has braved Russia's business climate by investing EEK8m in a manufacturing operation in Vyzinki, closer to its customers including motor manufacturers Gaz, Volga and Vaz, as well as Azlk and ZAS in the Ukraine. "It's a bridgehead for us and for our potential partners. If you look at the potential of the Russian economy, its fantastic," says Mr Aviksoo.

He believes that Norma's investment in Russia could pay off handsomely if several western car firms, including Fiat of Italy and GM, carry through their plans to invest in Russian factories. Fiat's planned $800m investment in Vaz at Togliatti in the Volga region, for example, will increase annual output in this plant alone to more than 740,000 cars per year.

While double-import tariffs raise the price of business in Russia, Mr Aviksoo remains cautiously optimistic. "Economic thinking in Russia will, hopefully, prevail because it is absurd that these tariffs are in place," he argues.

PROFILE Elcoteq Tallinn

Success more than equals sum of parts

A forward-looking people, Estonians are seriously interested in the latest technology. As there is nothing as ubiquitous on the streets of Tallinn asthe mobile telephone, it is fitting that mobile phones are Estonia's highest value export.

This is courtesy of the Finnish-owned electronics firm Elcoteq Tallinn, whose presence in Estonia is a testament to the potential of the small Baltic country which a mere seven years ago was a Soviet Socialist Republic.

There is no sign of the Soviet past at the futuristic Elcoteq plant where sophisticated machines assemble electronic components on printed circuit boards for installation in mobile telephones.

Elcoteq's factory offers a glimpse into Estonia's future or, at least, into what local politicians envision to be its future as a service-oriented economy with a modern manufacturing base.

Estonia already boasts an impressive number of internet users and, just in case someone is missing out on the information age, the government is sponsoring a programme to bring internet access to all schools.

Estonia's happy association with hi-tech began in 1992 when Elcoteq faced rapidly growing demand for its services from customers in the region. The company considered building a plant in Asia but backed a hunch too invest locally. "Why go to Malaysia when we can do it much closer to home?" asks Ilmar Petersen, general manager of Elcoteq Tallinn and vice president of Elcoteq Europe.

A mere hour by boat from Finland's southern shores, Estonia had working infrastructure, low costs and a large supply of well educated labour. Estonia is also culturally similar to Finland, an advantage even in this technological era.

A small, pilot plant rapidly developed into a fully-fledged manufacturing operation. Extensions were added and capacity was increased with financing from the International Finance Corporation.

By the end of 1997 Elcoteq Tallinn employed 1855 staff, whose productivity in the 24 hour operation matches Elcoteq's Finnish factories. The plant, Elcoteq's largest, now accounts for about 6 per cent of Estonia's merchandise exports.

Elcoteq assembles products for brand firms whose factories are short of capacity or simply find it more convenient to outsource production.

Fee assembly: Elcoteq has plans for Russian expansion

Elcoteq spares these firms, which include Ericsson of Sweden and Nokia of Finland, the cost of building additional factories. "We want to become better partners," says Mr Petersen. "And efficiency and quality are what matters."

Elcoteq's engineers now participate in some product design stages with contracting firms and the share of "box-build", where Elcoteq produces, packages and delivers the end product, last year accounted for 40 per cent of the firm's sales.

Elcoteq's progression into higher value added products also suggests the path ahead for the development of Estonia's industry, which is becoming an increasingly important out-sourcing location for Scandinavian firms.

The growing internationalisation of business and buoyant demand are also prompting expansion further afield. "Our competitors are in Scotland, Mexico, the far East," says Mr Petersen. "And more and more clients want our services there."

Several investments are in the works and Elcoteq's Tallinn plant is proving a convenient base for expansion into Russia. An expansion spearheaded by a plant in St Petersburg. Opened in response to customer demand, production within Russia's borders will avoid future tariffs and provide lower cost levels ensuring the plant's competitiveness for some time to come.

"It is easy for us to open in St Petersburg because have our Tallinn factory has lots of Russian-speaking staff and we are familiar with Russian practices," says Mr Petersen.

Matej Vipotnik

AGRICULTURE • by Liisa Rohumaa

Land of milk but no money

Farming faces a painful transition to free market and EU conditions

Banks and farmers are rarely on the best of terms but in Estonia the relationship is becoming increasingly hostile. The open trading climate and stable macro-economic environment that has created a haven for banks has been of little benefit to farmers who have seen the relative importance of agriculture dwindle since 1991.

"I look at the big new banks that have opened up in Tallinn and they just remind me how difficult it is to get a loan," says Vello Ilves, director of the Harju Farmers Union advisory centre which helps farmers with business and legal advice and rental of machinery.

Now farmers have something else to worry about. Preparations for European Union membership mean that the agricultural sector will have to comply with onerous legislative harmonisation, raise hygiene and veterinary standards and develop the administrative capacity to apply policy instruments demanded by the Common Agricultural Policy.

Estonia will have to introduce dairy quotas and features of the arable regime such as set-aside, base areas and compensatory payments. Crucially, the government will have to demonstrate that it can enforce the EU's requirements. Difficulties in complying to EU standards are a major factor in Estonia's continued reliance on the Russian market to sell nearly half its agricultural exports.

Farmers are preparing to enter a new world. They are also coming to terms with fact that the heyday of Estonian agriculture – in the thirties when half of all Estonians worked on the land and produced the eggs, butter and meat that graced the breakfast tables in London and St Petersburg – is unlikely ever to return.

Those working in agriculture will have to reinvent themselves and become canny operators able to present a business plan and to specialise and maximise their exports by modernising production and improving standards. Many will be forced to diversify into forestry, for example, or consider niche markets such as herbs, berries, flax, handicrafts and rural tourism. Ants Aamannn a farmer from Harjumaa county reckons "it will need every ounce of peasant grit to survive".

Today farming employs less than 8 per cent of the workforce and production is down in most areas. The lengthy process of land reform has seen many farmers and food processors file for bankruptcy. Uncertainties over ownership and the privatisation of former state land have dragged on.

The story of agriculture during Estonia's new found independence is a depressing one. Record levels of agricultural production between 1986 and 1989 were followed by a slump in the nineties. By 1995 livestock production had dropped by 52 per cent and crop production by 43 per cent.

Bitter harvest: Vello Ilves says farmers need help *Liisa Rohumaa*

Estonian agriculture in the early nineties faced a price-cost squeeze. Input costs rose 17 times while producers's prices increased only 11 times and the retail prices of food products rose 29 times. People bought less, agricultural income dived and many farmers were forced to leave land idle.

But there might be a few chinks of light. The Organisation for Economic Co-operation and Development (OECD) says that Estonia is alone in not giving direct subsidies to its farmers. This year, no doubt with EU ambitions taking centre stage, one sixth of the EEK600m agricultural budget will be destined for farmers in the form of direct subsidies.

The question of import tariffs has been raised but the Rural Union, junior partner in the governing Coalition party, has been thwarted in its attempts to introduce them by what Andres Varik, the agriculture minister, calls "political forces" dedicated to liberal policies.

Milk production has increased even though the number of cattle has dropped by 5 per cent, heartening news as milk and dairy products are the main item of Estonian export. However, in January the European Commission banned imports of Estonian dairy products after EU inspectors were critical of hygiene and veterinary standards. Although only a small amount was exported to the EU it still came as a bitter blow.

Now the dairy industry is facing another challenge, from Russia which, in February, said it would impose a new customs accounting system. This will calculate import duties on the volume rather than on the price assigned to goods going over the border.

In the long-term Estonia can best hope for cereal production and yields to recover to near self-sufficiency and increase livestock production. Dairy farmers will have to battle with banks for loans to improve their equipment. Vello Eensalu, a dairy farmer who recently took back his farm which had been eaten up by a collective during Soviet times, speaks for many when he says; "Every last penny I make I put back into buildings and equipment."

Restitution of land has almost been completed but the privatisation of land that no-one has yet claimed continues to be a problem forcing farmers, such as Mr Eensalu, who want to buy land to stand by and watch it lie fallow.

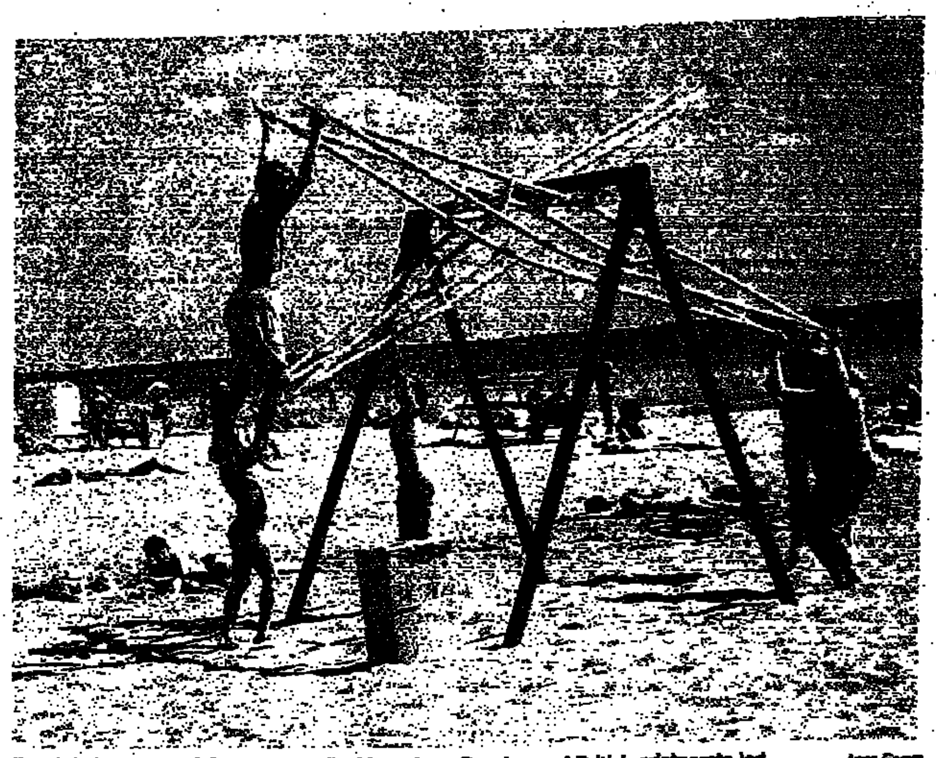
For a country whose national identity has been so closely allied to the land (most surnames have country associations - Ilves means lynx, Maasikas is strawberry, Rohumaa, grassland) agriculture is a wider social issue and there are concerns about the widening divisions between town and country.

People who work on the land are the lowest wage earners. There are worries also about attracting a new generation of young farmers since so many descendants of pre-war farming families lost their attachment to the land when the Soviets collectivised.

Kati Aus, a young woman in her twenties from the Baltic island of Saaremaa, lost her job on a collective farm in the southern part of the island when it broke up into smaller units after 1991. She studied horticulture in the US for a year but came back and could not find a job. "I just couldn't see any future in agriculture, so I've used my language skills and now I want to be in tourism."

This summer as she welcomes visitors at the tourist information office in Saaremaa she will find herself promoting a new growth industry – holidays on farms.

TOURISM • By Liisa Rohumaa



Beach ball: Finns and Germans are flocking where Russian and British aristocrats led *Anne Garaz*

Visitors return to happier times

A century after its holiday heyday, tourists, and their currency, are coming back

When Siivie Bljumovits, head of the Estonian Tourist Board, says she feels as though she is living 100 years ago she is comparing the current tourism boom to the birth of Estonian tourism in the 19th century. Then, British and Russian aristocrats flooded into the country to relax in their summer houses or seek the curative muds at spa towns, such as Parnu.

The Russian composer Tchaikovsky always headed for the beach during his summer holidays at Haapsalu in the north west, where he felt inspired enough to borrow a motif for his 6th Symphony from an Estonian folk song.

Today, the aristocrats have been replaced by thousands of Finns arriving on ferries from Helsinki for the "booze cruise" and coach-loads of Germans as well as business travellers and couples on city breaks to the capital, Tallinn.

They are supplemented by families on camping holidays and a burgeoning number of eco-tourists attracted by nature tours throughout mainland Estonia and the Baltic islands.

Estonia welcomes them all as tourism is a significant factor in the rapid growth of the economy and is helping to off-set a growing trade deficit. In 1996 tourism earned nearly 15 per cent of GDP and brought in EEK6.8bn. By the turn of the century the Tourist Board boldly forecasts that, with more active promotion, revenue from international tourism could increase to EEK15bn ($1.04bn).

In the first nine months of last year 2m visitors arrived in Estonia, 8 per cent more than the the same period the year before. Finland is the main source. Finnish visitors nearly doubled between 1994 and 1996 from 850,000 to 1.68m, of which many were day visitors to Tallinn.

Having been closed off from the world for more than 50 years the growth in Estonia's tourism sector is remarkable. Even the 1994 Estonia ferry disaster, in which 852 people died, had little lasting effect on volumes although the number of Swedish visitors declined the following year. Arrivals have steadily risen since and are now back to the levels of before the tragedy.

But, with few direct flights a lack of information, too few good hotels, drab buildings, a plodding public transport system and Soviet style indifference to the concept of hospitality, a traveller in the early post independence years may have found a trip to Tallinn somewhat bleak.

Driving through Estonia could also be a hazardous experience especially in a shiny new rented car-easily spotted by the police who were apt to punctuate the journey with a series of on the spot fines after flagging down travellers and asking to "check passports please" before informing occupants that they had been driving too fast.

Lack of signs and narrow dirt tracks that suddenly opened out into wide asphalted runways built by the Russians as landing strips for their Migs when they ran out of fuel made Estonia a bewildering and often alarming place for the traveller.

Great progress has been made since the bleak Soviet years. Tallinn airport is modest but clean. Estonian Air, SAS, Lufthansa, Finnair, Elk, and several other airlines fly direct. Transport and infrastrucure have greatly improved and more hotels and motels are opening up. Buses and coaches are clean and ferry operators, such as Tallink and Estline, provide regular services from Helsinki and Stockholm. A hydrofoil operates between Helsinki and Tallinn six times a day during the summer.

There has been a proliferation of tour operators and travel agencies, such as Baltic Tours and Estonian holidays. Prices are reasonable or cheap if you are Finnish which explains why so many descend on Tallinn. Service has also improved and resorts, such as Parnu and Otepaa, are being returned to their former glory and true colours (pink, blues, yellows and greens) as is the medieval city of Tallinn, the focus of much of the Tourist Board's marketing strategy to pull in first time visitors.

While much promotional activity centres on the capital, whose bars, restaurants and nightlife are making it, among wannabe bohemians at least, a trendy alternative to Prague, less well known regions of Estonia providing walking, cycling, sailing, camping and even hunting holidays and are learning to compete for the tourist.